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No. 08-563

In The

Supreme Court of the United States

COIN ACCEPTORS, INC.,

Petitioner,

v.

MARS, INCORPORATED,

Respondent.

On Petition For Writ Of Certiorari To The United States Court Of Appeals For The Federal Circuit

PETITION FOR WRIT OF CERTIORARI

BRYAN CAVE LLP
KENNETH J. MALLIN
Counsel of Record
K. LEE MARSHALL
One Metropolitan Square
211 N. Broadway, Suite 3600
St. Louis, MO 63102
(314) 259-2000

Attorneys for Petitioner

COCKLE LAW BRIEF PRINTING CO. (800) 225-6964
OR CALL COLLECT (402) 342-2831

QUESTION PRESENTED

Whether courts of appeals reviewing the decisions of district courts on the doctrines of quasi- and judicial estoppel should review the district court's decisions *de novo* or for abuse of discretion.

CORPORATE DISCLOSURE STATEMENT

The proceeding in the court below included the following parties: Mars, Inc.; Mars Electronics International, Inc.; M&M/Mars, Inc.; and Coin Acceptors, Inc. The counterclaim for which M&M/Mars, Inc. was a defendant was not at issue in the judgment sought to be reviewed, and Mars Electronics International, Inc. was determined not to have standing in the judgment sought to be reviewed.

The Petitioner has no parent corporations and no publicly held company owns 10% or more of its stock.

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No. _____

In The Supreme Court of the United States

COIN ACCEPTORS, INC.,

Petitioner,

v.

MARS, INCORPORATED,

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On Petition For Writ Of Certiorari To The United States Court Of Appeals For The Federal Circuit

PETITION FOR WRIT OF CERTIORARI

Coin Acceptors, Inc. ("Coinco") respectfully petitions for a writ of certiorari to review the judgment of the United States Court of Appeals for the Federal Circuit in this case.

OPINIONS BELOW

The opinion of the United States Court of Appeals for the Federal Circuit (App. 1) is reported at 527 F.3d 1359 (Fed. Cir. 2008). The oral decision of

the United States District Court for the District of New Jersey (App. 34-78) is not reported.

JURISDICTION

The Federal Circuit entered its judgment on June 2, 2008. Petitioner filed a timely petition for rehearing on June 16, 2008, which was denied on June 27, 2008. On September 19, 2008, Chief Justice Roberts extended the time to file a petition for writ of certiorari to and including October 27, 2008. The jurisdiction of this Court is invoked under 28 U.S.C. § 1254(1).

STATUTORY PROVISION INVOLVED

This case involves a provision of the United States Patent Act, 35 U.S.C. § 284:

> "Upon finding for the claimant the court shall award the claimant damages adequate to compensate for the infringement, but in no event less than a reasonable royalty for the use made of the invention by the infringer, together with interest and costs as fixed by the court."
>
> "When the damages are not found by a jury, the court shall assess them. In either event the court may increase the damages up to three times the amount found or assessed. Increased damages under this paragraph

shall not apply to provisional rights under section 154(d) of this title."

"The court may receive expert testimony as an aid to the determination of damages or of what royalty would be reasonable under the circumstances."

STATEMENT OF THE CASE

This case involves an award of damages in favor of Mars, Incorporated ("Mars") and against Coinco for infringement of U.S. Patent Nos. 3,870,137 ("'137 Patent") and 4,438,719 ("'719 Patent").

The liability determinations of the district court were affirmed by the Federal Circuit on November 17, 2005, and are not at issue. Rather, this petition presents a question related to the Federal Circuit's review of the district court's judgment on damages and seeks resolution by this Court of an acknowledged circuit split on the issue: What standard of review applies to the application of, or refusal to apply, the doctrines of quasi- and judicial estoppel? In particular, should the federal appellate courts review the decisions of the district courts on quasi- and judicial estoppel *de novo* or for abuse of discretion?

I. The District Court's Patent Infringement Determination

The patents at issue relate to technology used in vending machines to authenticate coins. On January 5, 1990, Mars filed suit in the district court against Coinco, alleging that certain Coinco products infringed the '137 and '719 Patents. The district court had jurisdiction over the action pursuant to 28 U.S.C. § 1338. Following a bench trial, the district court found that Coinco infringed both the '137 and '719 Patents and entered final judgment on liability pursuant to Rule 54(b) on November 17, 2005. The district court's liability judgment was affirmed on appeal by the Federal Circuit. *See Mars, Inc. v. Coin Acceptors, Inc.*, 210 Fed. Appx. 991 (Fed. Cir. 2006).

II. Mars's Dispute with the British Taxing Authority

After Mars filed this patent infringement suit, but before the district court commenced proceedings on damages, a dispute arose between Mars and the British Taxing Authority known as the Inland Revenue Taxing Authority (*i.e.*, the UK counterpart of the IRS). Specifically, in 1995, the British Taxing Authority disputed the amount of royalty payments made to Mars, a U.S. company, by its British subsidiary, Mars Electronics International, a UK division of Mars ("MEI-UK"), for use of its patented coin acceptor technology. The British Taxing Authority asserted that the royalty rate paid by MEI-UK to its parent, Mars, and deducted by MEI-UK as a

business expense, was higher than an "arm's length" rate, thereby artificially reducing the UK tax burden of MEI-UK. British tax law required the British Taxing Authority to adjust those payments in related-party transactions to ensure an "arm's length" transaction between "independent enterprises." *See* Schedule 28AA Income and Corporation Taxes Act of 1988 (this law ensures that a company does not overstate its royalty expense to a related party and thereby reduce or altogether avoid its domestic taxes). Relevant to the dispute between Coinco and Mars, both the British tax law and United States patent law require the determination of a royalty rate based on a hypothetical "arm's length" negotiation between two unrelated parties. *See Georgia-Pacific Corp. v. U.S. Plywood Corp.*, 318 F. Supp. 1116 (S.D.N.Y. 1970).

In order to comply with British tax law and resolve the dispute with the British Taxing Authority, Mars and MEI-UK entered into a new License Agreement dated January 1, 1996. (App. 82-86.) In this License Agreement, Mars granted to MEI-UK the worldwide "non-exclusive right" to all of Mars's "coin exchange mechanisms," including the '719 Patent. *Id.* at 83. At that same time, Mars and MEI-UK represented to the British Taxing Authority that the prior royalty payments to Mars for the patents were "excessive" as compared to arm's length royalties charged by independent third parties:

> "For the years 1990-1995, the parties agree that the historical royalty payment with respect to the Covered Intellectual Property *was excessive to the extent it exceeded a net*

> *royalty of 4%* after taking into account product development recovery. . . ."

Id. at 84 (emphasis added). This representation encompassed royalty payments made for both the '137 and the '719 Patents.[1] Accordingly, Mars, MEI-UK, and the British Taxing Authority calculated the excessive portion of the historical royalty payments, and Mars and MEI-UK agreed to offset that amount against future royalty payments due Mars. *Id.* at 84-85.

In order to further comply with the demands of the British Taxing Authority, Mars and MEI-UK agreed to a sliding royalty schedule starting at 5% for 1996 to 1997, and dropping to 4% for 1998 to 2000, 3% for 2001 to 2002, and 2% for 2003 to 2004 – a blended royalty rate of approximately 3.6%. *Id.* at 84. The 3.6% blended royalty rate was in exchange for a worldwide non-exclusive license to *all* of Mars's patents and patent applications related to coin authentication technology as of December 31, 1995.

III. The District Court's Damages Determination

When the proceedings on damages commenced before the district court in this case, the only issue that remained was a determination of the reasonable

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[1] The '137 Patent expired on March 11, 1992, and the '719 Patent expired on July 1, 2003.

royalty rate to which Mars was entitled. At a four-day bench trial in May 2006, and in post-trial briefing, Coinco argued that Mars was precluded from arguing for a royalty rate in excess of 4% based on its representation to the British Taxing Authority in settlement of its tax dispute that such a rate would be "excessive." The district court, nonetheless, decided that issue in favor of Mars on April 20, 2007, concluding that a blended 7% royalty rate for the '137 and the '719 Patents was reasonable. This produced a total judgment for damages and interest in the amount of $26,805,150. (App. 81.) The district court found that the License Agreement – the product of Mars's tax dispute with the British Taxing Authority – "was not an arm's length transaction" and, therefore, dismissed Mars's representation to the British Taxing Authority as "of little relevance." (App. 47-48.)

IV. Coinco's Appeal of the Damages Determination to the Federal Circuit

On appeal to the Federal Circuit, Coinco argued that Mars was estopped from asserting a position contrary to that expressly represented to the British Taxing Authority under the doctrine of quasi-estoppel, also known as the "Rule of Consistency." Coinco maintained that the district court's refusal to hold Mars to its representations to the British Taxing Authority constituted legal error. The Federal Circuit, however, reviewed the district court's finding with respect to Coinco's quasi-estoppel argument under an abuse of discretion standard (App. 30-31),

and affirmed the district court with respect to the royalty rate.

REASONS FOR GRANTING THE WRIT

I. THE COURTS OF APPEALS ARE DIVIDED ON THE STANDARD OF REVIEW TO BE APPLIED TO THE DOCTRINES OF QUASI-ESTOPPEL AND JUDICIAL ESTOPPEL.

The circuits are split on the question whether a decision by the district court on the doctrine of quasi-estoppel and a sub-set of that doctrine, judicial estoppel, should be reviewed *de novo* or for abuse of discretion. In this case, the Federal Circuit applied an abuse of discretion standard in reviewing the district court's holding that Mars was entitled to a higher royalty rate despite its contrary representation to the British Taxing Authority. This is the only case in which a court of appeals has applied an abuse of discretion standard to a district court's decision whether to estop a litigant based on inconsistent representations made to a taxing authority. At least three other circuits have reviewed such a decision *de novo*. *See In re Robb*, 23 F.3d 895 (4th Cir. 1994); *In re Davidson*, 947 F.2d 1294 (5th Cir. 1991); *Estate of Ashman v. C.I.R.*, 231 F.3d 541 (9th Cir. 2000).

While the Federal Circuit's application of an abuse of discretion standard of review in this case is

consistent with the decisions of seven circuits on the doctrine of judicial estoppel,[2] it is in direct conflict with three other circuits, which apply *de novo* review to that doctrine.[3] To further complicate the divide, at least two circuits have inconsistently applied both standards of review to the application of quasi-estoppel and judicial estoppel,[4] and at least one circuit has created a bifurcated standard.[5] Although this Court in *New Hampshire v. Maine* recently stated that "judicial estoppel 'is an equitable doctrine invoked by a court at its discretion,'" the Court was

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[2] *See Klein v. Stahl GMBH & Co. Maschinefabrik*, 185 F.3d 98 (3d Cir. 1999); *Nat'l Union Fire Ins. Co. of Pittsburgh, Inc. v. Mfrs. & Traders Trust Co.*, 137 Fed. Appx. 529 (4th Cir. 2005); *Kane v. Nat'l Union Fire Ins. Co.*, 535 F.3d 380 (5th Cir. 2008); *Stallings v. Hussmann Corp.*, 447 F.3d 1041 (8th Cir. 2006); *Abercrombie & Fitch Co. v. Moose Creek, Inc.*, 486 F.3d 629 (9th Cir. 2007); *Bradford v. Wiggins*, 516 F.3d 1189 (10th Cir. 2008); *Casanova v. Pre Solutions, Inc.*, 228 Fed. Appx. 837 (11th Cir. 2007).

[3] *See Uzdavines v. Weeks Marine, Inc.*, 418 F.3d 138, 143 (2d Cir. 2005); *U.S. v. Hammon*, 277 Fed. Appx. 560, 562 (6th Cir. 2008); *U.S. v. Hook*, 195 F.3d 299, 305 (7th Cir. 1999).

[4] *Compare Nat'l Union Fire Ins. Co.*, 137 Fed. Appx. at 530, *with In re Robb*, 28 F.3d at 898; *and compare Kane*, 535 F.3d at 384, *with In re Davidson*, 947 F.2d at 1296.

[5] *See Thore v. Howe*, 466 F.3d 173 (1st Cir. 2006); *see also Generals v. Resolution Trust Corp.*, 112 F.3d 569, 572 n.2 (1st Cir. 1997) ("In reality, judicial estoppel is not extrinsically a matter of fact or law; the issues that arise may turn out to be ones of raw fact, abstract law, or something in between, e.g., the application of a general standard to a known set of facts.") (quoting *Desjardins v. Van Buren Cmty. Hosp.*, 37 F.3d 21, 23 (1st Cir. 1994)).

exercising its original jurisdiction and did not address the appropriate standard of review to be applied by the appellate courts to the doctrine on appeal. 532 U.S. 742, 750 (2001) (quoting *Russell v. Rolfs*, 893 F.2d 1033, 1037 (9th Cir. 1990). This Court should grant this petition to resolve this acknowledged conflict and to further promote the fundamental importance of consistency and judicial integrity.

"An 'estoppel' is a bar which precludes a person from denying the truth of a fact which has become settled in contemplation of law." 31 C.J.S. *Estoppel and Waiver* § 1 (2008). Though a species of equitable estoppel, the doctrine of quasi-estoppel is more akin to a "legal bar." *Id.* The doctrine of quasi-estoppel forbids a party from asserting a position in a legal proceeding which is contrary to a position taken by that party in a previous judicial or quasi-judicial proceeding. *Amtrust, Inc. v. Larson*, 388 F.3d 594, 600 (8th Cir. 2004). Quasi-estoppel applies when it would be "unconscionable" to allow a person to maintain a position inconsistent with one to which he acquiesced, or from which he accepted a benefit. *Lozano v. Ocwen Fed. Bank, FSB,* 489 F.3d 636, 640 (5th Cir. 2007). The doctrine has often been invoked to preclude a party from asserting in a later judicial proceeding a position which is different than the position it took before a taxing authority. *See, e.g., In re Robb*, 23 F.3d at 898; *In re Davidson*, 947 F.2d at 1297.

For example, in *In re Robb*, the plaintiff and defendant executed a settlement agreement, which required the debtor husband to pay a prescribed

amount of "alimony" over a certain period of time. The debtor husband deducted such payments as alimony on his income tax returns, but subsequently argued before the bankruptcy court that such payments were dischargeable support payments. *Id.* at 897. The bankruptcy court agreed and discharged the payments, but the district court reversed. *Id.* Reviewing the application of quasi-estoppel *de novo,* the Fourth Circuit affirmed the district court's reversal, holding that the debtor husband was precluded from taking a position inconsistent with a position he previously took before the IRS. *Id.* at 898; *see also In re Davidson,* 947 F.2d at 1297.

Judicial estoppel is a subset of the doctrine of quasi-estoppel. Both doctrines implicate the same policy concerns (*i.e.,* consistency and integrity within the judicial process) and often involve similar or related inquiries. Judicial estoppel is invoked to preclude a party who prevails on one ground in a legal proceeding from thereafter asserting an inconsistent position in a subsequent proceeding. *New Hampshire v. Maine*, 532 U.S. at 749-50. The purpose of this doctrine is to "protect the integrity of the judicial process" by "prohibiting parties from deliberately changing positions according to the exigencies of the moment." *Id.* (citations omitted). Some courts have limited application of this doctrine to circumstances in which the integrity of the judicial process would be impacted by inconsistencies resulting from contradictory positions. *See, e.g., Uzdavines v. Weeks Marine, Inc.,* 418 F.3d 138, 148 (2d Cir. 2005). The

terms quasi-estoppel, duty of consistency, and judicial estoppel have frequently been used interchangeably. *See Estate of Ashman,* 231 F.3d at 543.

The applicable standard of review implicates these foundational principles of consistency and doctrinal coherence that lie at the heart of these doctrines. As Justice O'Connor noted, "[a] dispute regarding the appropriate standard of review may strike some as a lawyers' quibble over words, but it is not." *Metropolitan Broad., Inc. v. FCC,* 497 U.S. 547, 610 (1990) (O'Connor, J., dissenting). Inconsistent review of the application of quasi-estoppel and its offspring – judicial estoppel – undercuts the very purpose of the doctrines themselves, namely maintaining consistency throughout the judicial process. The purpose of a standard of review is to provide a uniform set of basic assumptions concerning how much deference a reviewing court should afford to the decisions of the trial court. *De novo* review and abuse of discretion review fall at opposite ends of that spectrum.

Under an abuse of discretion standard, appellate review of a lower court's ruling is "deferential" and will result in reversal only if that ruling is "manifestly erroneous." *General Electric Co. v. Joiner,* 522 U.S. 136, 141-43 (1997). A *de novo* standard of review, however, requires an independent determination of the issue as if it were being decided for the first time. *Salve Regina College v. Russell,* 499 U.S. 225, 231-33 (1991). While one standard presumes the correctness of the district court's decision, the other accords it no deference whatsoever. Thus, resolution of this

division within the circuits is necessary to establish a uniform starting point for review of decisions on quasi- and judicial estoppel.

This case presents an opportunity for this Court to resolve the inconsistent standards of review applied by the various circuits. The Federal Circuit's perfunctory review in this case – for an abuse of discretion – significantly affected the outcome of this case. By sharply circumscribing its analysis, the Federal Circuit accepted with undue deference the district court's finding that Mars's admission to the British Taxing Authority was only "minimally relevant." Yet, Mars was faced with the same issue under both the British tax law and patent law in this case – the determination of a royalty rate based on a hypothetical "arm's length" negotiation between two unrelated parties – and argued two completely different positions, first to the British Taxing Authority, and then to the district court. As a result, *de novo* consideration would have required the court to address in the first instance the jarring inconsistency between Mars's representation to the British Taxing Authority about the appropriate royalty rate and its position in this case.

As recognized by the Fourth and Fifth Circuits, when the facts of a case relating to the quasi-estoppel issue are undisputed, application of the doctrine becomes a question of law. This is such a case. Mars's representation to the British Taxing Authority is uncontroverted; the effect of that representation is what is at issue. The Federal Circuit's decision in this

case is squarely at odds with the Fourth and Fifth Circuits and is inconsistent with those circuits applying a *de novo* standard of review to the related doctrine of judicial estoppel.

II. THE APPROPRIATE STANDARD OF REVIEW PRESENTS AN IMPORTANT QUESTION THAT SHOULD BE SETTLED BY THIS COURT.

Appellate courts do not exist solely to resolve disputes; rather, at the very heart of each appellate court's supervisory role is its obligation to ensure a consistent and coherent judicial process and body of law. *See Salve Regina College,* 499 U.S. at 238. One of the most fundamental means employed by the circuits to accomplish this role is establishing the appropriate standard of review and ensuring its uniform application. *Id.*; *see also Munn v. Sec'y of Dep't of Health & Human Servs.*, 970 F.2d 863 (Fed. Cir. 1992) (recognizing necessity for court to determine its appellate role by identifying and articulating the proper standard of review). If applied consistently, the standard of review ensures that each appellate court gives equal deference, if any, to the lower court's decisions. *Dickinson v. Zurko,* 527 U.S. 150, 162 (1999). The result is predictability and increased doctrinal coherence. *Id.*

The disparity between the two standards of review applied to the doctrines of quasi- and judicial estoppel could not be greater. If the very purpose of estoppel is to "prevent improper use of judicial [and

quasi-judicial] machinery" and to protect "the essential integrity of the judicial process," a consistent yardstick is necessary lest the doctrine lose force. *New Hampshire*, 532 U.S. at 750.

The Federal Circuit's abdication to the district court on this issue had a significant effect in this case. While few courts have elaborated on the doctrine of quasi-estoppel, Mars's representation to the British Taxing Authority squarely falls within those decisions applying the doctrine. By deferring to the district court, the Federal Circuit's opinion signifies only that the district court's refusal to estop Mars from arguing an inconsistent position does not exceed "the bounds of permissible choice." *Bradford*, 516 F.3d at 1194 (quoting *Eastman v. Union Pac. R.R. Co.*, 493 F.3d 1151, 1156 (10th Cir. 2007)). Yet, a different decision consistent with the representations made by Mars to the British Taxing Authority with regard to the appropriate royalty rate would reduce the judgment against Coinco by approximately $11.5 million.

The mandate of independent review in lieu of a rule of deference is likely to alter the appellate outcome in a significant number of cases. "[T]he difference between a rule of deference and the duty to exercise independent review is 'much more than a mere matter of degree'." *Salve Regina College*, 499 U.S. at 238 (quoting *Bose Corp. v. Consumers Union of United States, Inc.*, 466 U.S. 485, 501 (1984)).

This case exposes a deep and mature conflict in the circuits and presents an opportunity for resolution by this Court.

CONCLUSION

For the foregoing reasons, the petition for writ of certiorari should be granted.

Respectfully submitted,

BRYAN CAVE LLP
KENNETH J. MALLIN
Counsel of Record
K. LEE MARSHALL
One Metropolitan Square
211 N. Broadway, Suite 3600
St. Louis, MO 63102
(314) 259-2000
Attorneys for Petitioner

United States Court of Appeals for the Federal Circuit

2007-1409, -1436

MARS, INCORPORATED,

Plaintiff/Counterclaim Defendant-Appellant,

and

MARS ELECTRONICS INTERNATIONAL, INC.,

Plaintiff/Counterclaim Defendant,

and

M&M/MARS INCORPORATED,

Counterclaim Defendant,

v.

COIN ACCEPTORS, INC.,

Defendant/Counterclaimant-Cross Appellant.

John B. Pegram, Fish & Richardson P.C., of New York, New York, argued for plaintiff/counterclaim defendant-appellant. With him on the brief were Autumn J.S. Hwang; and Michael E. Florey and Kraig A. Jakobsen, of Minneapolis, Minnesota.

Kenneth J. Mallin, Bryan Cave LLP, of St. Louis, Missouri, argued for defendant/counterclaimant-cross appellant. With him on the brief was K. Lee Marshall.

Appealed from: United States District Court for the District of New Jersey

Judge John C. Lifland

United States Court of Appeals for the Federal Circuit

2007-1409, -1436

MARS, INCORPORATED,

Plaintiff/Counterclaim Defendant-Appellant,

and

MARS ELECTRONICS INTERNATIONAL, INC.,

Plaintiff/Counterclaim Defendant,

and

M&M/MARS INCORPORATED,

Counterclaim Defendant,

v.

COIN ACCEPTORS, INC.,

Defendant/Counterclaimant-Cross Appellant.

Appeals from the United States District Court
for the District of New Jersey
in Case No. 90-CV-00049,
Senior Judge John C. Lifland.

DECIDED: June 2, 2008

Before LINN, Circuit Judge, CLEVENGER, Senior Circuit Judge, and PROST, Circuit Judge.

LINN, Circuit Judge.

This case involves standing and damages for patent infringement. Mars Incorporated ("Mars") appeals from the judgment of the United States District Court for the District of New Jersey precluding Mars from recovering damages on a lost profits theory and denying Mars's motion to amend its complaint to add its subsidiary as a co-plaintiff in its infringement action against Coin Acceptors, Inc. ("Coinco"). *Mars, Inc. v. Coin Acceptors, Inc.*, No. 90-CV-0049, 2006 WL 2927239 (D.N.J. May 19, 2006) (denial of motion to amend and grant of summary judgment on lost profits theory); *Mars, Inc. v. Coin Acceptors, Inc.*, No. 90-CV-0049, 2006 WL 2927240 (D.N.J. Aug. 7, 2006) (grant in part of motion for reconsideration); *Mars, Inc. v. Coin Acceptors, Inc.*, No. 90-CV-0049, 2006 WL 2990371 (D.N.J. Oct. 18, 2006) (denial of motion to reconsider reconsideration). Coinco cross-appeals the district court's judgment that Mars had standing to recover damages for the

period between 1996 and 2003, and it appeals the reasonable royalty rate imposed by the district court. *Mars,* 2006 WL 2927240; *Mars,* 2006 WL 2990371; *Mars, Inc. v. Coin Acceptors, Inc.,* No. 90-CV-0049, slip. op. (D.N.J. May 22, 2007) (final judgment on damages).

We agree with the district court that Mars was not entitled to recover on a lost profits theory and that Mars's subsidiary lacked standing prior to 1996. We likewise find no error in the district court's determination of a reasonably royalty rate. We disagree, however, with the district court's conclusion that Mars had standing to recover damages for the period between 1996 and 2003. The court therefore *affirms-in-part, reverses-in-part,* and *remands.*

I. BACKGROUND

The patents-in-suit relate to technology used in vending machines to authenticate coins. Mars is a candy company. Mars's former subsidiary – Mars Electronics International, Inc. ("MEI") – manufactures and sells vending machine coin changers with the ability to recognize and authenticate coins electronically. Mars itself does not make and has never made vending machine coin changers.

Until 2006, MEI was a wholly owned subsidiary of Mars. Mars maintained consolidated financial statements that reflected the profits, losses, assets, and liabilities of all of its subsidiaries, including MEI. However, prior to 1996, MEI also had a royalty

agreement with Mars, under which MEI made payments to Mars "[b]ased on gross sales value" of coin changers using Mars's patented technology. J.A. 4131 (deposition testimony of Mars's Corporate Tax Director Thomas G. Cornell). The royalty payments from MEI to Mars were structured as in a typical intellectual property licensing agreement: "even if MEI did not make a profit, [it was] still obligated to pay a royalty to Mars." *Id.*

On January 5, 1990, Mars brought this action against Coinco, alleging that certain Coinco products infringed U.S. Patents No. 3,870,137 ("'137 patent") and No. 4,538,719 ("'719 patent"). Mars owned both the '137 patent and the '719 patent at the time it filed suit. Coinco counterclaimed, alleging infringement of four of its own patents, and MEI (which manufactured the devices accused of infringing Coinco's patents) was added as a counterclaim defendant.

Following consolidation with a related declaratory judgment case and trial, the district court found that Coinco infringed both the '137 and the '719 patents, but that Mars did not infringe Coinco's asserted patents. On November 17, 2005, the district court entered final judgment on liability pursuant to Rule 54(b). Coinco appealed, and this court affirmed the district court's liability judgment.

The district court then began proceedings on damages. During the fifteen years that the infringement action was pending, several key events occurred that limited the damages available to Mars. First, on

March 1, 1992, the '137 patent expired. *Mars,* 2006 WL 2927240, at *6.

Second, on March 31, 1994, Coinco introduced non-infringing alternative technology for electronic coin authentication. The parties therefore agreed that Mars was not entitled to lost profits for any lost sales after March 31, 1994.

Third, on January 1, 1996, Mars entered into a set of agreements (collectively, the "1996 Agreements") with MEI and another Mars subsidiary in the United Kingdom, which was also called Mars Electronics International ("MEI-UK"). Mars and MEI-UK had been involved in a dispute with the United Kingdom's taxing authority (at that time known as Inland Revenue), concerning the tax treatment of royalty payments from MEI-UK to its parent Mars. The 1996 Agreements resolved this dispute by transferring certain rights from Mars to MEI, and by establishing that MEI-UK would pay Mars royalties at agreed-upon diminishing rates, beginning at 5% in 1996, and gradually declining to 2% in 2004. Specifically, effective January 1, 1996, Mars transferred to MEI: "its entire interest in the Covered Intellectual Property that relates to the business of the Parties." J.A. 4942. The "Covered Intellectual Property" was defined as "those letters patent" that "the Parties have been heretofore using and exploiting, in the conduct of their businesses." J.A. 4941.

Finally, on July 1, 2003, the '719 patent expired. *Mars,* 2006 WL 2927240, at *6. The parties agree that

Mars is not entitled to any damages for infringing sales after that date.

Mars sought the following damages: (1) lost profits, or, at minimum, a reasonable royalty for sales prior to March 31, 1994 (the period prior to Coinco's introduction of alternative technology); and (2) a reasonable royalty on Coinco's sales from April 1, 1994 until July 1, 2003 (the remaining life of the patents). Coinco acknowledged that Mars was entitled to a reasonable royalty prior to January 1, 1996 (the date on which the 1996 Agreements took effect), but disputed both Mars's claim to lost profits and its claim to any damages after January 1, 1996.

Before the damages trial, Coinco moved for partial summary judgment on Mars's claim for lost profits damages. *Mars,* 2006 WL 2927239, at *4. Mars, conversely, moved for leave to amend its complaint to join MEI as a co-plaintiff. *Id.* at *1. The district court granted Coinco's summary judgment motion, reasoning that Mars itself did not lose any sales (because it did not sell coin changers itself), and that there was no evidence that profits from MEI's sales flowed inexorably to Mars. *Id.* at *5-6. The district court also denied Mars's motion for leave to amend as futile, reasoning that MEI lacked standing in the infringement action, because it was neither the owner nor the exclusive licensee of the patents-in-suit. *Id.* at *3-4.

On Mars's motion for reconsideration, the district court modified its ruling on Mars's motion for leave to

amend. The court held that the 1996 Agreements assigned all of Mars's interest in the '719 patent to MEI, and it therefore reasoned that MEI – but not Mars – had standing to pursue claims from January 1996 forward. *Mars,* 2006 WL 2927240, at *8. But relying on our holding in *Schreiber Foods, Inc. v. Beatrice Cheese, Inc.,* 402 F.3d 1198 (Fed. Cir. 2005), the district court further held that Mars's lack of standing for the period after 1996 could "be cured by the 'imminent' transfer back to Mars of the rights to the '137 and '719 patents before final judgment." *Mars,* 2006 WL 2927240, at *8.

On March 31, 2006, Mars and certain of its subsidiaries, including MEI, entered into a purchase agreement for the sale of certain parts of the subsidiaries' businesses to Mars. The purchase agreement was not made part of the record, either before the district court or on appeal. Mars's counsel represented to the district court that the purchase agreement did "not clearly state what [was] needed to be stated for this case," and that it would "not rear its ugly head" in the litigation. J.A. 3914. Instead, what was offered was an agreement between Mars and MEI entitled "COINCO CONFIRMATION AGREEMENT," effective June 19, 2006 ("Confirmation Agreement"). J.A. 3177. The Confirmation Agreement stated that "Mars and [MEI] do hereby acknowledge that Mars owns and retains the right to sue for past infringement of the Litigation Patents" – i.e., the '137 and '719 patents. J.A. 3177-78. Apparently treating the Confirmation Agreement as a transfer of all of

MEI's rights back to Mars, the district court held that MEI now lacked standing to pursue any claim for damages, but that Mars was entitled to recover damages during the period when MEI had owned the patents.

The district court held a four-day bench trial on damages to determine the appropriate amount of a reasonable royalty. Following this trial, the district court issued a detailed oral opinion from the bench (spanning forty-six transcript pages), analyzing the fifteen *Georgia-Pacific* factors and concluding that a blended 7% royalty rate for the two patents was reasonable. After resolving post-trial motions, the district court applied this 7% royalty rate to Coinco sales up to July 1, 2003, resulting in damages of $14,376,062. The district court awarded prejudgment interest and entered final judgment on May 22, 2007.

Both parties timely appealed. We have jurisdiction pursuant to 28 U.S.C. § 1295(a)(1).

II. DISCUSSION

We address four issues raised by this appeal: (1) whether Mars was entitled to lost profits; (2) whether MEI had standing to recover damages incurred prior to 1996; (3) whether Mars had standing to recover damages incurred from 1996 to 2003; and (4) whether the district court erred by imposing a 7% royalty rate.

A. Lost Profits

The district court granted Coinco's motion for summary judgment on Mars's claim of lost profits because it concluded that: (1) Mars's arrangement with MEI was a licensing arrangement, rather than an arrangement where profits "flow[ed] inexorably from MEI to Mars"; (2) Mars's nonexclusive licensing policy signified that it expected only reasonable royalties, rather than lost profits; and (3) Mars lacked the capacity to manufacture the patented products itself, without relying on MEI. *Mars*, 2006 WL 2927239, at *6. The district court relied particularly on *Poly-America L.P. v. GSE Lining Technology, Inc.*, a case in which we held that a patent holder is not entitled to recover under a lost profits theory as a result of sales lost by a sister corporation, absent a showing that the patent holder *itself* had lost profits. 383 F.3d 1303, 1311 (Fed. Cir. 2004).

"This court reviews without deference a district court's grant of summary judgment, reapplying the same standard as the district court." *Micro Chem., Inc. v. Lextron, Inc.*, 318 F.3d 1119, 1121 (Fed. Cir. 2003). We must determine whether "the pleadings, depositions, answers to interrogatories, and admissions on file, together with the affidavits, if any, show that there is no genuine issue as to any material fact and that the moving party is entitled to a judgment as a matter of law." Fed. R. Civ. P. 56(c). "Availability of lost profits is a question of law reviewed without deference." *Micro Chem.*, 318 F.3d at 1122 (citing *Rite-Hite Corp. v. Kelley Co.*, 56 F.3d 1538, 1544 (Fed.

Cir. 1995) (en banc)); *see also Poly-America*, 383 F.3d at 1311 ("Whether lost profits are legally compensable in a particular situation is a question of law that we review *de novo*.").

Mars argues that *Poly-America* does not preclude a parent from recovering the lost profits of its wholly owned subsidiary, and that the consolidated financial statements prove that "all MEI's lost profits were inherently lost profits of Mars." Appellant's Br. 18. Coinco responds by arguing that Mars cannot meet the "manufacturing and marketing capability" element of the *Panduit* lost profits test, and that the record does not support Mars's theory that all profits inherently flowed to Mars from MEI. *Micro Chem.*, 318 F.3d at 1124. There is no dispute that MEI's lost sales may have caused harm to Mars. *See, e.g., Mars*, 2006 WL 2927239, at *5 (acknowledging the "economic reality" that a parent corporation loses money when its wholly owned subsidiary loses money). The dispute is whether that harm is compensable under a lost profits theory.

Patent infringement is a tort. *Schillinger v. United States*, 155 U.S. 163, 196 (1894). "In patent cases, as in other commercial torts, damages are measured by inquiring: had the tortfeasor not committed the wrong, what would have been the financial position of the person wronged?" *Brooktree Corp. v. Advanced Micro Devices, Inc.*, 977 F.2d 1555, 1579 (Fed. Cir. 1992); *see also Aro Mfg. Co. v. Convertible Top Replacement Co.*, 377 U.S. 476, 507 (1964) (stating damages analysis as assessing "had the Infringer

not infringed, what would the [Patentee] have made?").

Damages in patent infringement cases are governed by 35 U.S.C. § 284:

> Upon finding for the claimant the court shall award the claimant damages adequate to compensate for the infringement, but in no event less than a reasonable royalty for the use made of the invention by the infringer, together with interest and costs as fixed by the court.

35 U.S.C. § 284. "[W]hile the statutory text states tersely that the patentee receive 'adequate' damages, the Supreme Court has interpreted this to mean that 'adequate' damages should approximate those damages that will *fully compensate* the patentee for infringement." *Rite-Hite,* 56 F.3d at 1545 (emphasis in the original). In enacting § 284, "Congress sought to ensure that the patent owner would in fact receive full compensation for 'any damages' he suffered as a result of the infringement." *Gen. Motors Corp. v. Devex Corp.*, 461 U.S. 648, 654-55 (1983); *see also Fromson v. W. Litho Plate & Supply Co.*, 853 F.2d 1568 (Fed. Cir. 1988) ("The statute, 35 U.S.C. § 284, mandates that damages shall be 'adequate to compensate' the patent owner for the infringement. That requirement parallels the criterion long applicable in other fields of law."), *overruled on other grounds by Knorr-Bremse Systeme Fuer Nutzfahrzeuge GmbH v. Dana Corp.*, 383 F.3d 1337 (Fed. Cir. 2004) (en banc).

Despite the broad damages language of § 284, patentees tend to try to fit their damages cases into the "lost profits" framework, or else fall back on the statutory grant of a reasonable royalty. *See, e.g.*, 7 Donald S. Chisum, *Chisum on Patents* § 20.01 (2005) ("The three traditional modes of measuring compensatory damages are lost profits, established royalty, and reasonable royalty."); Herbert F. Schwartz, *Patent Law and Practice,* 212 (5th ed. 2006) ("The two traditional measures of monetary damages awarded under 35 U.S.C. § 284 are lost profits and royalties. . . ."). But while lost profits is plainly one way to measure the amount of damages that will "fully compensate" the patentee under § 284, we have never held that it is the *only* one. "The assessment of adequate damages under section 284 does not limit the patent holder to the amount of diverted sales of a commercial embodiment of the patented product." *Minco, Inc. v. Combustion Eng'g, Inc.*, 95 F.3d 1109, 1118 (Fed. Cir. 1996); *see also Rite-Hite,* 56 F.3d at 1544 ("[T]he language of the statute is expansive rather than limiting. It affirmatively states that damages must be adequate, while providing only a lower limit and *no other limitation.*" (emphasis added)). We have previously recognized that patentees may be entitled to damages above a reasonable royalty on theories entirely distinct from lost profits. *See, e.g., Minco,* 95 F.3d at 1120 (recognizing that the patentee might have been entitled to damages as a result of overpaying for the infringer's business, if it had proven that the infringing products were an important factor in the sale). Nevertheless, Mars expressly elected to

pursue only lost profits and reasonable royalty theories, and it stipulated that it would not seek "any other damages other than lost profits or a reasonable royalty." J.A. 2268.2 (Stipulation Concerning Damages, Doc. No. 321, Feb. 3, 2006). Mars is bound by this stipulation. Thus, we need not determine whether Mars would have been entitled to recover under any other damages theory for the economic injury that it suffered as a result of MEI's lost sales.

The correct measure of damages is a highly case-specific and fact-specific analysis. *See Hebert v. Lisle Corp.*, 99 F.3d 1109, 1119 (Fed. Cir. 1996) ("The adequacy of the damages measure depends on the circumstances of each case."); *Rite-Hite*, 56 F.3d at 1546 ("The general principles expressed in the common law tell us that the question of legal compensability is one 'to be determined on the facts of each case upon mixed considerations of logic, common sense, justice, policy and precedent.'" (citing 1 Street, *Foundations of Legal Liability* 110 (1906))).

Mars claims that, by virtue of the parent-subsidiary relationship and its consolidated financial statements, "all MEI's lost profits were *inherently* lost profits of Mars." Appellant's Br. 18 (emphasis added); *see also id.* at 2 ("The parent company here – Mars – was *inherently* damaged by the infringement injury to its 100% owned subsidiary – MEI – through that ownership and their consolidated financial statements." (emphasis added)); *Mars*, 2006 WL 2927239, at *5 ("Mars seeks to distinguish *Poly-America* based on the corporate structure between itself and MEI

and on the theory that MEI's profits flowed *inexorably* to Mars, thus permitting Mars to recover the lost profits that MEI would have made absent infringement." (emphasis added)). But, as the district court concluded, the facts do not support this claim.

The uncontradicted testimony of Mars's Corporate Tax Director, Thomas Cornell, shows that Mars and MEI had a traditional royalty-bearing license agreement. MEI paid Mars a royalty "[b]ased on gross sales value" of MEI's products that use Mars's patented technology, and MEI was required to make those royalty payments whether or not it made any profit. J.A. 4131. Mars identified no record evidence that it ever received or recognized any form of profit or revenue from MEI apart from these royalty payments. *Cf. Mars,* 2006 WL 2927239, at *6 (quoting testimony of Mr. Cornell that he was not sure whether MEI ever paid any profits to Mars and concluding that "Mr. Cornell did not say, as Mars argues, that profits flow inexorably from MEI to Mars"). Thus, Mars's claim that it "inherently" lost profits when MEI lost profits is unsupported by the record, as the district court correctly concluded. The district court was correct to grant summary judgment on this basis.

Because we conclude that MEI's profits did not – as Mars argued – flow inexorably to Mars, we, like the *Poly-America* court, need not decide whether a parent company can recover on a lost profits theory when profits of a subsidiary actually *do* flow inexorably up to the parent. *See Poly-America,* 383 F.3d at

1311 ("[I]t is not clear here whether Poly-America has itself suffered lost profits from the infringement, a matter that may be dealt with on remand. . . .") We hold simply that the facts of this case cannot support recovery under a lost profits theory.

B. MEI's Standing (Prior to 1996)

The district court denied as futile Mars's motion to amend its complaint to add MEI as a co-plaintiff for infringement that occurred prior to 1996. Specifically, the district court held that the motion would be futile because MEI lacked standing prior to 1996, when it was neither the owner nor the exclusive licensee of either of the patents-in-suit. Mars appeals, claiming that MEI was an implied and *de facto* exclusive licensee. Our review is *de novo*. *See Rite-Hite*, 56 F.3d 1538, 1551 ("The question of standing to sue is a jurisdictional one, which we review *de novo*." (citations omitted)).

Only a patent owner or an exclusive licensee can have constitutional standing to bring an infringement suit; a non-exclusive licensee does not. *Sicom Sys., Ltd. v. Agilent Techs., Inc.*, 427 F.3d 971, 976 (Fed. Cir. 2005) ("A nonexclusive license confers no constitutional standing on the licensee to bring suit or even to join a suit with the patentee because a nonexclusive licensee suffers no legal injury from infringement." (internal citations omitted)); *Schreiber Foods*, 402 F.3d at 1202-03 ("It is well-settled that non-exclusive licensees do not have constitutional

standing to sue."). "This standing deficiency cannot be cured by adding the patent title owner to the suit." *Morrow v. Microsoft Corp.*, 499 F.3d 1332, 1341 (Fed. Cir. 2007). It is undisputed that MEI did not own either of the patents-in-suit prior to 1996. The issue is only whether MEI was an exclusive licensee.

"To be an exclusive licensee for standing purposes, a party must have received, not only the right to practice the invention within a given territory, but also the patentee's express or implied promise that others shall be excluded from practicing the invention within that territory as well." *Rite-Hite,* 56 F.3d at 1552. By the same token, if the patentee *allows* others to practice the patent in the licensee's territory, then the licensee is *not* an exclusive licensee.

In the 1996 Agreements, Mars and MEI agreed that Mars was the owner of the patents-in-suit:

> [Mars] Incorporated currently owns . . . a substantial number of patents and patent applications, which existed at 31 December 1995, relating to Covered Products [defined as "currency note acceptors and coin exchange mechanisms and other electronics products"] manufactured and sold by MEI-UK ("Covered Intellectual Property"). . . .

J.A. 4944. In the same document, Mars made clear that MEI-UK – a separate corporate entity from either Mars or MEI – previously had and would continue to have a license to practice the patents-in-suit:

> MEI-UK will continue to have a non-exclusive right to exploit, in the conduct of its business, the Covered Intellectual Property in any country of the world in exchange for a royalty payable to Incorporated. . . .

Id. Thus, prior to 1996, MEI-UK had a license: the right to practice the patents-in-suit "in any country of the world" (including the United States), in exchange for a royalty payment. MEI cannot have been Mars's exclusive United States licensee, when the terms of the 1996 Agreements make clear that Mars had allowed MEI-UK to practice the patents in the United States. The deposition testimony of Mars's Corporate Tax Director confirmed MEI-UK's rights under its license from Mars. *See* J.A. 4130 ("Q. Were there instances where MEI-U.K. could make a product such as a coin changer and import that product into the United States for delivery to MEI, Inc.? A. That could happen, sure.").

MEI was not, therefore, the exclusive licensee to the patents-in-suit in the United States prior to 1996. It consequently lacked constitutional standing. *See, e.g., Poly-America,* 383 F.3d at 1311 ("[The licensee] does not have exclusive rights. It is clearly identified in the license agreement as a non-exclusive licensee, and as such, it received only a 'bare license' and has no entitlement under the patent statutes to itself collect lost profits damages for any losses it incurred due to infringement."); *Rite-Hite,* 56 F.3d at 1553 ("Most particularly, the [licensees] had no right under the agreements to exclude anyone from making,

using, or selling the claimed invention. The [licensees] could not exclude from their respective territories other [licensees], third parties, or even [the patentee] itself."). Because we find that MEI was not an exclusive licensee as a result of Mars's license to MEI-UK, we need not consider the effect of the other licenses identified by Coinco or the district court. *See Mars,* 2006 WL 2927239, at *3-4.

C. Mars's Standing (1996-2003)

The district court held that the 1996 Agreements transferred ownership of the '719 patent[1] to MEI and therefore deprived Mars of standing to recover damages on sales from 1996 to 2003. *Mars,* 2006 WL 2927240, at *8. However, applying the logic of this court's decision in *Schreiber Foods,* the district court held that Mars could cure its lack of standing "by the 'imminent' transfer back to Mars of the rights to the . . . '719 patent[ ] before final judgment." *Id.* Though the record is not clear on this point, it appears that the district court treated the Confirmation Agreement as satisfying *Schreiber Foods* by transferring all of the rights in the '719 patent back to Mars prior to final judgment, thus restoring Mars's standing to recover damages from 1996 to 2003. The district court thus applied its royalty rate to a base that included

[1] The '137 patent expired prior to 1996. *Mars,* 2006 WL 2927240, at *6. Only the '719 patent is at issue in the 1996-2003 timeframe.

Coinco sales both prior to 1996, and from 1996 to 2003.

On appeal, Coinco argues that Mars failed to recover standing because: (1) the Confirmation Agreement transferred only the right to sue – not title to – the '719 patent; and (2) the transfer was after final judgment. Our review of this question of standing is *de novo*. *See Rite-Hite,* 56 F.3d at 1551.

Preliminarily, we note that *both* parties have confused the record by taking positions here that are seemingly contradictory to positions taken before the district court as to the interpretation and effect of the Confirmation Agreement. When addressing *MEI*'s standing at the district court, Coinco argued that the Confirmation Agreement transferred back to Mars *all* of MEI's rights, presumably including title. *See* J.A. 3242 ("The 2006 Coinco Confirmation Agreement . . . purports to transfer MEI's entire rights to damages for infringement in the '719 Patent, including damages for past infringement, to Mars, Incorporated."); J.A. 3913 ("From the four corners of that particular document, it is clear to Coinco and we believe should be clear to the court that whatever rights that MEI had with respect to the '719 patent, at least according to that document, have been transferred to Mars, Inc."). Now, Coinco argues that the Confirmation Agreement did not transfer title back to Mars. *See* Cross Appellant's Br. 30 ("Mars did not have standing to assert the '719 Patent after January 1, 1996, because – unlike *Schreiber Foods* – Mars never regained title to the patent.").

Mars is equally guilty of changing positions. At the district court and in some sections of its opening brief here, Mars argued that the Confirmation Agreement transferred "ownership" (presumably meaning title) from MEI to Mars. *See* Appellant's Br. 15 ("Mars sold MEI as of June 19, 2006 and regained full ownership of the '137 and '719 patents, including the right to sue for past infringement.") But at oral argument, Mars claimed that the Confirmation Agreement did not and could not transfer title, because Mars never gave up title in the first place. Oral Arg. at 13:52-14:12, *available at* http://www.cafc.uscourts.gov/oralarguments/mp3/2007-1409.mp3 ("The Confirmation Agreement does not transfer title. . . ."). Because this is a question of standing and our review is *de novo*, *see Rite-Hite*, 56 F.3d at 1551, we will independently evaluate the effect of the 1996 Agreements and the Confirmation Agreement on the ownership of the '719 patent, notwithstanding the apparently contradictory representations of both parties.

"[T]he plaintiff in an [infringement] action . . . must be the person or persons in whom the legal title to the patent resided at the time of the infringement." *Crown Die & Tool Co. v. Nye Tool & Mach. Works*, 261 U.S. 24, 40 (1923) (quoting 3 Robinson on Patents § 937); *Rite-Hite*, 56 F.3d at 1551 ("Generally, one seeking money damages for patent infringement must have held legal title to the patent at the time of the infringement.") Likewise, the procedure described in *Schreiber* requires a patentee to reacquire title to a

patent to correct the jurisdictional defect that arises when the plaintiff loses title to the patent during the litigation. *See Schreiber,* 402 F.3d at 1204 ("Here Schreiber reacquired its stake in the litigation by *reacquiring the '860 patent* (and causes of action thereunder) before the entry of judgment. The jurisdictional defect that had existed was cured before the entry of judgment and thus the judgment was not void." (emphasis added)). We must therefore determine whether the 1996 Agreements transferred title of the '719 patent from Mars to MEI, and, if so, whether the Confirmation Agreement transferred title back from MEI to Mars.

Construction of patent assignment agreements is a matter of state contract law. *Minco,* 95 F.3d at 1117. By their terms, the 1996 Agreements are governed by Delaware law. In Delaware:

> Under standard rules of contract interpretation, a court must determine the intent of the parties from the language of the contract. A determination of that kind will sometimes require the court to decide whether or not the disputed contract language is ambiguous. Contract language is ambiguous if it is reasonably susceptible of two or more interpretations or may have two or more different meanings. Where no ambiguity exists, the contract will be interpreted according to the ordinary and usual meaning of its terms.

Twin City Fire Ins. Co. v. Del. Racing Ass'n, 840 A.2d 624, 628 (Del. 2003) (footnotes and internal quotation marks omitted).

The relevant language of the 1996 Agreements is: "[Mars] Incorporated hereby transfers to MEI-US its entire interest in the Covered Intellectual Property that relates to the business of the Parties." J.A. 4942. We see nothing ambiguous about this language. A transfer of the "entire interest" of a patentee in a patent is well known to mean a full assignment of the patent – i.e., transfer of title. *See, e.g., Littlefield v. Perry*, 88 U.S. 205, 219 (1874) ("[The] power of assignment has been so construed by the courts as to confine it to the transfer of an entire patent, an undivided part thereof, or the *entire interest of the patentee* or undivided part thereof within and throughout a certain specified portion of the United States. One holding such an assignment is an assignee within the meaning of the statute, and may prosecute in the Circuit Court any action that may be necessary for the protection of his rights under the patent." (emphasis added)). Thus, giving the ordinary and usual meaning to the terms of this clause of the 1996 Agreements, we find that intent of the parties was to transfer title to the '719 patent from Mars to MEI. Like the district court, we therefore conclude that Mars lacked standing as of 1996. *Mars*, 2006 WL 2927240, at *8.

We next turn to the Confirmation Agreement to determine whether it transferred title to the '719 patent back to Mars.[2] The Confirmation Agreement is governed by New York law. In New York, "[t]he words and phrases used by the parties must, as in all cases involving contract interpretation, be given their plain meaning. . . ." *Brooke Group Ltd. v. JCH Syndicate,* 663 N.E.2d 635, 638 (N.Y. 1996). Moreover, "it is common practice for the courts [of New York] to refer to the dictionary to determine the plain and ordinary meaning of words to a contract." *Mazzola v. County of Suffolk,* 533 N.Y.S.2d 297, 297 (N.Y. App. Div. 1988).

Mars cites paragraph A of the recitals as the portion of the agreement effecting a transfer of rights, but paragraph A contains nothing but a general description of the subject matter of the purchase agreement. Paragraph 1 appears to be the paragraph that most closely resembles a transfer of title. It states:

> Mars and the Buyer [MEI] do hereby *acknowledge* that Mars owns and retains the right to sue for past infringement of the Litigation Patents. To the extent that MEI may have or claim *any rights in or to any past*

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[2] Though the Confirmation Agreement refers to a purchase agreement between Mars and its subsidiaries, the purchase agreement was not made part of the record either before the district court or before us. The only evidence that Mars cites for any transfer of rights from MEI to Mars in 2006 is the Confirmation Agreement itself.

> *infringement of the Litigation Patents or any recovery therefor,* upon the terms and subject to the conditions of the Purchase Agreement, MEI hereby does irrevocably *assign* all such rights to Mars.

J.A. 3177-78 (emphases added).

The first sentence of paragraph 1 describes an acknowledgement – i.e., a recognition – of rights that the contracting parties believed had already been transferred. *See, e.g.*, 1 *Oxford English Dictionary* 108 (2d ed. 1989) (defining "acknowledge" as "1. To own the knowledge of; to confess; to recognize or admit as true. . . . 3. To own as genuine, or of legal force or validity; to own, avow, or assent, in legal form, to (an act, document, etc.) so as to give it validity"); *Webster's Third New International Dictionary of the English Language, Unabridged* 17 (2002) (defining "acknowledge" as "1: to show by word or act that one has knowledge of and agrees to (a fact or truth) . . . 2 a: to show by word or act that one has knowledge of and respect for the rights, claims, authority or status of . . . : recognize, honor, or respect esp. publicly"). It did not purport to be a transfer itself.[3]

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[3] In fact, the title of the Confirmation Agreement – "COINCO CONFIRMATION AGREEMENT" – itself suggests that the agreement was meant primarily to acknowledge an understanding of an earlier agreement, rather than to transfer ownership of property. J.A. 3177. *See, e.g.*, 3 *Oxford English Dictionary* 710 (2d ed. 1989) (defining "confirmation" as "1. The action of making firm or sure. . . . 2. The action of confirming or

(Continued on following page)

The second sentence of paragraph 1 *does* describe an actual transfer – "MEI hereby does irrevocably assign all such rights to Mars." J.A. 3178. But the antecedent of "such rights" is "any rights in or to any past infringement of the Litigation Patents or any recovery therefor." J.A. 3177-78. This is an assignment of the right to sue for past infringement, not an assignment of title. *See Morrow*, 499 F.3d at 1342 (holding that transfer of right to sue for past infringement does not convey title or standing in infringement action). The 1996 Agreements make clear that MEI and Mars knew how to transfer title when they intended to do so. We see no provision in the Confirmation Agreement that transfers title to the '719 patent back to Mars.

Finally, we reject Mars's argument that because the right to sue for past infringement is the "only remaining right[]" in an expired patent, a transfer of the right to sue is effectively the same as a transfer of title. Appellant's Reply Br. 15. Title to a patent – even an expired patent – includes more than merely the right to recover damages for past infringement. Moreover, the transfer of the right to sue for past infringement divorced from title creates a risk of unnecessary third-party litigation, whether or not the patent has expired. *See Crown Die*, 261 U.S. at 39 (expressing disfavor toward separate transfer of right

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ratifying by some additional legal form"); *id.* at 709 (defining "confirm" as "2. To make valid by formal authoritative assent (a thing already instituted or ordained); to ratify, sanction").

to sue, because it would "stir up litigation by third persons that is certainly contrary to the purpose and spirit of the statutory provisions for the assigning of patents").

We conclude that the Confirmation Agreement did not transfer title and that Mars lacks standing for the period from 1996 to 2003.[4] We therefore need not decide whether the Confirmation Agreement took effect before or after final judgment for purposes of *Schreiber*.

D. Reasonable Royalty

After a four-day damages trial, the district court determined that a reasonable royalty was a blended royalty rate of 7% for both patents. The district court weighed the *Georgia-Pacific* factors and issued a forty-six page oral opinion explaining its rationale in arriving at the 7% rate.

Coinco principally challenges three aspects of the district court's analysis. First, Coinco argues that the district court erred by awarding a reasonable royalty rate higher than the cost to Coinco of implementing acceptable noninfringing alternatives. Second, Coinco argues that the reasonable royalty rate could not exceed 4%, in light of Mars's representations to

[4] Neither the parties to this appeal nor MEI have challenged the district court's determination that MEI lacks standing for the period between 1996 and 2003. We do not address that issue here.

Inland Revenue. Finally, Coinco claims that the district court erred by relying on Coinco's incremental profit, rather than its operating profit, to calculate a reasonable royalty.

"In reviewing damages awards in patent cases, we give broad deference to the conclusions reached by the finder of fact." *Monsanto Co. v. McFarling*, 488 F.3d 973, 981 (Fed. Cir. 2007). We review a district court's damages decision for "an erroneous conclusion of law, clearly erroneous factual findings, or a clear error of judgment amounting to an abuse of discretion." *Rite-Hite*, 56 F.3d at 1543-44. More particularly, in a reasonable royalty calculation, we review "the methodology (i.e., accounting method) for damages for an abuse of discretion and the damage amount for clear error." *Micro Chem.*, 318 F.3d at 1122 (citing *SmithKline Diagnostics, Inc. v. Helena Labs. Corp.*, 926 F.2d 1161, 1164 n.2 (Fed. Cir. 1991)).

1. Noninfringing Alternatives

The heart of Coinco's first argument is that an infringer should not be required to pay more in reasonable royalty damages than it would have paid to avoid infringement in the first place by switching to an available noninfringing alternative. This claim fails for two reasons. First, Coinco is simply wrong to suggest that the district court found that there were available, acceptable, noninfringing alternatives. What the district court found was that "Coinco had the ability, the resources, and the desire to design

around Mars' patents," that "it could probably figure out a way to avoid infringement," but that the available "design around was not as good as it would like." J.A. 125, 128, 130. There was, therefore, no available and acceptable noninfringing alternative to which Coinco could have switched at the time of the hypothetical negotiation; there was merely the possibility that it could have come up with one.

Second, even if Coinco had shown that it had an acceptable noninfringing alternative at the time of the hypothetical negotiation, Coinco is wrong as a matter of law to claim that reasonable royalty damages are capped at the cost of implementing the cheapest available, acceptable, noninfringing alternative. We have previously considered and rejected such an argument. *See Monsanto Co. v. Ralph*, 382 F.3d 1374, 1383 (Fed. Cir. 2004) (rejecting infringer's argument that "a reasonable royalty deduced through a hypothetical negotiation process can never be set so high that no rational self-interested wealth-maximizing infringer acting *ex ante* would ever have agreed to it"). To the contrary, an infringer may be liable for damages, including reasonable royalty damages, that exceed the amount that the infringer could have paid to avoid infringement.

The district court considered the potential availability of noninfringing alternatives, found that Coinco did not have – but probably could have designed – an acceptable alternative, and reduced the blended royalty rate accordingly, from 11.5% to 7%. Using a calculation methodology that did not limit

Mars's damages to the cost of its least expensive noninfringing alternative was not an abuse of discretion, and the resulting 7% royalty rate was not clearly erroneous.

2. Representation to Inland Revenue

Next, Coinco argues that the district court erred by ignoring Mars's purported admission that a royalty over 4% was excessive. The 1996 Agreements between Mars and its subsidiaries include a clause that states:

> For the years 1990-1995, the parties agree that the historical royalty payment with respect to the Covered Intellectual Property was excessive to the extent it exceeded a net royalty of 4% after taking into account product development recovery. . . .

J.A. 4945. Coinco argues that this clause indicates Mars's belief that any royalty rate for all of Mars's patents (including the patents-in-suit) would be "excessive" if it were above 4%. The district court found that the 4% rate was only minimally relevant for two reasons: (1) because it was the result of negotiations with United Kingdom taxing authorities, "not an arm's length transaction"; and (2) because "[i]t is certainly not a license between competitors, as the license in the hypothetical negotiation between Mars and Coinco would be." J.A. 123.

We see no error. The district court was plainly correct to conclude that the terms in an intra-company

license agreement made to satisfy the requirements of the United Kingdom taxing authorities are likely to be very different from those resulting from a hypothetical negotiation between competitors. While Coinco may be correct that the United Kingdom taxing authorities requested that the license rate be one that simulates the rate that would have been reached in an arm's-length negotiation between independent enterprises, there is no evidence that suggested that the 4% rate would have been the rate at which Mars would have licensed a *competitor*. *See* J.A. 129-30 (district court reasoning that "it would be economically suicidal" for Mars to license the competitor of its subsidiary). Thus, the district court did not abuse its discretion by refusing to cap the reasonable royalty rate at the 4% rate referred to in the 1996 Agreements.

3. Incremental Profits

The district court found that the market for coin changers was "very profitable." J.A. 123. In reaching this conclusion, the district court relied on the incremental profit – rather than operating profit – of both Mars and Coinco. Coinco argues that this was error.

We disagree. We have never held that any one profit accounting methodology is appropriate in all industries, for all companies, in all cases. The selection of the appropriate method of profit accounting in the circumstances is properly left to the broad discretion of the district court. Here, the district court

heard competing expert testimony and found that a profitability analysis based on incremental profits was appropriate. We defer to that finding. *See, e.g., Monsanto,* 488 F.3d at 981.

Moreover, we reject Coinco's argument that a reasonable royalty can never result in an infringer operating at a loss. "[A]lthough an infringer's anticipated profit from use of the patented invention is '[a]mong the factors to be considered in determining' a reasonable royalty, *see Georgia-Pacific,* 318 F. Supp. at 1120, the law does not require that an infringer be permitted to make a profit." *Monsanto,* 382 F.3d at 1384. *See also State Indus., Inc. v. Mor-Flo Indus., Inc.,* 883 F.2d 1573, 1580 (Fed. Cir. 1989) ("There is no rule that a royalty be no higher than the infringer's net profit margin.").

* * *

We have considered Coinco's other arguments challenging the 7% royalty rate. Each of its other arguments concerns the weight that the district court gave to specific facts. We decline Coinco's inappropriate invitation to reweigh the damages evidence. *Cybor Corp. v. FAS Techs., Inc.,* 138 F.3d 1448, 1461 (Fed. Cir. 1998) (en banc) ("[W]e conclude that the district court weighed the evidence before it in an appropriate fashion. We decline [the cross appellant's] inappropriate invitation that we essentially reweigh the record evidence.").

Accordingly, we affirm the district court's assessment of a 7% reasonable royalty rate. Because

Mars's lack of standing for the period from 1996 to 2003 changes the royalty base, we must remand for recalculation of damages using the 7% rate.

III. CONCLUSION

For the foregoing reasons, we *affirm* the district court's summary judgment excluding Mars's lost profits claim. Because MEI lacked standing prior to 1996, we *affirm* the district court's denial of Mars's motion for leave to amend. However, we *reverse* the district court's determination that Mars had standing to recover damages for the period from 1996 to 2003. We *affirm* the district court's assessment of a 7% reasonable royalty rate, and we *remand* for recalculation of damages for the period prior to 1996 and for further proceedings consistent with this opinion.

AFFIRMED-IN-PART, REVERSED-IN-PART, AND REMANDED.

COSTS

Each party shall bear its own costs.

IN THE UNITED STATES DISTRICT COURT.
FOR THE DISTRICT OF NEW JERSEY
Docket No. 90-49

MARS, INCORPORATED,

V.

COIN ACCEPTORS, INCORPORATED,

DEFENDANT.

Transcript of Proceedings

Newark, New Jersey
April 20, 2007

BEFORE: HONORABLE JOHN C. LIFLAND,
UNITED STATES DISTRICT JUDGE

APPEARANCES:

MC CARTER & ENGLISH
BY: LANNY KURZWEIL, ESQ.
AND
FISH & RICHARDSON P.C.
BY: JOHN B. PEGRAM, ESQ.
(NY BAR)
For the Plaintiff.

DAY PITNEY
BY: PAUL MARINO, ESQ.
AND
BRYAN CAVE
BY: KENNETH J. MALLIN, ESQ.
(MO BAR)
(Via telephone)

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Lynne Johnson, CSR, CM, CRR
P.O. Box 6822
Lawrenceville, New Jersey 08648
609-896-1836
Email: CHJLAW@AOL.COM

[2] THE COURT: Mr. Mallin.

MR. MALLIN: Good morning.

THE COURT: We are here with Mr. Pegram, Mr. Kurzweil, and Mr. Marino from Day Pitney. And if you can't hear, you will let me know: And I don't expect that I am going to be having too much colloquy with counsel. I think this is going to be pretty much a monologue, though I do have a couple of questions that I want to address.

First, on the question of interest, yesterday I received from Mr. Pegram their position with respect to prejudgment interest and we had a conversation with Ms. Sher. She requested time to respond, which of course is okay, and she requested, as I recall, a week from today, or maybe it was a week from next Monday, I forget.

MR. MALLIN: I believe it was a week from Monday, your Honor.

THE COURT: Well, that is okay.

MR. MALLIN: Thank you.

THE COURT: Any problem with that, Mr. Pegram?

MR. PEGRAM: No, your Honor.

THE COURT: Okay. So that will be resolved after I hear from both sides.

I am about to give the parties my decision on the issues of damages which have been explored during the four-day trial, and subsequent post-trial briefing relating to the [3] infringement of the Mars '137 and '719 patents. Those issues have been explored by the parties with expert witnesses and nonexpert witnesses, and in great detail, and I have considered everything.

To the extent I don't mention something, it is not because I have ignored it. I have read everything. I have read everything the parties have presented and considered everything the parties have presented, and my decision will, as counsel will see, follow on the most important issues, and indeed, all important issues, whether or not most important, that bear on the resolution of a case such as this.

I apologize to counsel if the decision is not as well organized as it might be if I had filed a written decision, but for many reasons, I thought it important to, once I had reached a decision, to communicate it to the parties rather than take the time which is always necessary to formulate a written opinion.

In resolving a damages question in a patent case, the first question is whether we are addressing lost profits or the other statutory basis for damages, namely, a reasonable royalty. In this case, for reasons

which the parties are most familiar with, we are addressing a reasonable royalty only, and the rules with respect to reasonable royalty calculations are known to everyone. But I will summarize them.

[4] In the Georgia Pacific case, some 15 factors were spelled out that trial judges should address in resolving a damages dispute. The parties have in their briefing and their experts in their analysis have addressed those factors to the extent relevant. And I will do the same.

In rendering these findings and conclusions, my format will be to refer to the factors which I find of greatest significant, and then I will back track, if you will, and go over many of the pieces of evidence which inform my decision as to those factors or what I will call sub factors.

Counsel will bear with me a second while I get the Georgia Pacific factors before me. They are somewhere here on the bench.

(Pause)

THE COURT: There are 15 Georgia Pacific factors and I referred to Georgia Pacific Corp. versus U.S. Plywood, 318 F. Supp. 1116, modified and affirmed at 446 F.2d 295, 1971, second circuit.

The formulation is interesting because there are 14 factors, and then the 15th factor which is the framework for my analysis is the amount that licensor and licensee would have agreed upon, considering the previous 14 factors, or any other relevant factors.

so a hypothetical negotiation at the time infringement began is the framework that I work from.

[5] And I work in the context of a negotiation between the relevant parties, and I will get to that in a second, because there is a dispute about that.

At time infringement began, where both parties are fully aware of the facts that bear upon their negotiating positions, and both parties are willing and anxious to reach agreement as to a nonexclusive license to manufacture and sell a particular article embodying the patented invention. As long as the licensee would be able to make a reasonable profit, both experts have focused on what I will call background, which of course is the nature of the business environment in which they were operating.

That market is accurately portrayed by some of the exhibits that the experts have prepared. One of them is PDX 04 and that shows Mars sales before Coinco infringement. And it shows a steadily increasing and sharply increasing sales of Mars electronic Coin Acceptors, perhaps including changers. I do not know whether the expert calcul[illegible]ed sales from changers as well. But it reflects generally the market for the electronic technology which was practiced as far as the issues in this case are concerned pretty much solely by Mars in the United States during the years of 1974 to 1984. The expert report of Mr. Jackson accurately describes the market as one dominated by Mars with respect to electronic technology, a market in which the customers were recognizing [6] that

electronic technology was superior to the electromechanical technology that Coinco was active with prior to 1984. And a market in which Coinco joined around 1984.

The market for coin Acceptors was one in which performance was very, very important to the customers, and to the extent that the technology, reflected in the patents here enhanced performance that technology was also important to the customers, though the customers did not have any involvement with the ways in which the parties made their devices work and work well. The customers only demanded that they work well.

Georgia Pacific factor number 9 is the utility and advantages of the patent property over the old molds or devices that had been used for working out similar results. The findings I have just made as to the nature of the market relate directly to that factor because it was clear to everyone that electronic technology was replacing the electromechanical technology for coin recognition and acceptance, and as I have indicated, Mars had always been involved since 1974 in electronic technology and until 1984 Coinco had not been involved in electronic technology but had been active with electromechanical technology.

The accounting period has to be mentioned, and is an important part of any calculation, obviously.

[7] As to the '137 patent I think all agree that the accounting period began in 1984 but for reasons

conceded by Mars relating to marking and notice damages are not recoverable until December 1, 1988, which is the date on which Mars first notified Coinco by letter of infringement.

As to the '719 patent, the parties disagree as to whether the damages period commenced on the date on which Mars acquired the '719 patent which was my recollection July 25, 1986, or a slightly later date of November, 1986, which I believe is the date that infringement began by the first sale of an infringing device, or whether the accounting period began on the day when Hilgraeve, the party that sold the '719 patent to Mars, received the patent. The significance of this is reflected in the arguments of the parties as to who would be the parties to the hypothetical royalty negotiations.

Coinco argues that Hilgraeve would have been negotiating with Coinco. Mars argues that it would either be Mars negotiating with Coinco or a three-way negotiation and Mars' position is the result of those latter two situations would be about the same. Mars' position is that the date is November, 1986, when Coinco began selling the infringing product. Coinco says it should be earlier, namely September of 1986, while Hilgraeve still owned – excuse me. Withdraw that September date. It should be earlier, while Hilgraeve [8] still owned the '719 patent because Coinco says it infringed the '719 by developing and testing the infringing products which it launched in November of 1986.

As to that Coinco position, the evidence in the record is not sufficient for me to accept Coinco's position that it indeed infringed by developing and testing infringing products. So I will next consider whether it is Mars and Coinco in this hypothetical negotiation or Mars Hilgraeve and Coinco in these hypothetical negotiations.

Now, the key is one of the criteria that applied to this hypothetical negotiation construct, and that key is that everybody knows the facts that exist at that time, and indeed, are reasonably foreseeable, and that includes everybody knowing that there is an infringement of the patent or patents relevant to those negotiations:

That is key to my resolution of the issue of who would be the parties to the negotiation because once everyone knows, once Hilgraeve knows that Mars is infringing, which Mars admitted, and which Mars, Mars testimony indicates is the reason why they felt they had to buy the '719 patent, Hilgraeve's eyes would light up, figuratively, and they would adjust their negotiating strategy upward from $200,000 which was acceptable to them.

Once Hilgraeve knew that Coinco was about to infringe, Hilgraeve would see that it is in the catbird's [9] seat with respect to these negotiations because it has two parties, both of whom are going to infringe this patent, or have already infringed it, and they would be bidding against each other.

So I reject Coinco's position that because Hilgraeve sold the '719 patent to Mars for $200,000, and indeed, had earlier offered it to Coinco for a substantially lesser amount, that the royalties should be governed by those relatively minor costs for the patent, or that the royalties should be governed by Hilgraeve's modest, relatively speaking, demands for compensation for its patent rights. Because as I said, none of those positions were informed to the extent that Hilgraeve knew that there was infringement out there.

In other words, there would be a bidding war and Hilgraeve would reap the benefit of that. A seller who has two possible buyers over the ropes because they are infringing the seller's patent, or about to, will exact the highest possible price for a license which would far exceed $200,000 that Hilgraeve sold the '719 patent to Mars for.

I find that the negotiations, the parties negotiating for a reasonable royalty would be Mars and/or MEI on the one side, and Coinco on the other. They are the parties to the patent dispute that is before me and as to which I found infringement. And they are and have been [10] before the court, they have presented to me their views as to what their respective negotiating positions would have been and Hilgraeve is not and has never been before the court, and from that flows my conclusion that the damage period for the '719 would begin in November of 1986.

So at a time when Mars and Coinco both know that Coinco is infringing the '137 patent, and the '719 patent, and in view of the nature of the market which I have already described, the parties will enter into negotiations for a reasonable royalty on both patents, both parties reasonably trying to reach an agreement, in the words of Georgia Pacific, as to an amount which a prudent licensee who desires as a business proposition to obtain a license to manufacture and sell a particular article embodying the patented invention would have been willing to pay as a royalty and yet be able to make a reasonable profit and which amount would have been acceptable by a prudent patentee who was willing to grant a license.

Georgia Pacific factor number 4 must be considered, and I do consider it, and I have considered it with respect to whether or to what extent Mars would be willing to grant a license. Mr. Partoyan of Mars testified quite categorically, and I accept this, that Mars' policy was not to grant a license to a competitor except in those situations where there was a countervailing benefit to Mars or one of its [11] companies, one of the companies in the Mars family of companies. That was Mars attitude towards licensing.

And in the nature of the market analysis that I have already done, it would certainly appear that that policy would play out because Mars has the electronic market all to itself. Coinco has just joined the market by infringing on Mars patents. Coinco is a direct competitor of Mars, and from that flows the fact that every sale that Coinco makes is a sale that

Mars will not make, except to the extent that the market grows through the efforts of all involved in it, but if the market doesn't grow, as I said, Mars is looking at a loss of sales roughly commensurate with Coinco's sales.

Now, the actual facts which are shown in graphic form in PDX 05 shows that the market from 1984 to 1993 did not in fact grow, but certainly Coinco took sales away from Mars. Coinco's mechanical, electrical units did not sell. The sales gradually declined to almost nothing. Coinco's electronic units started selling and replaced sales to Mars that would have occurred had the market all belonged to Mars.

These facts, while somewhat predictive in hindsight, do support Mars' attitude towards licensing a direct competitor which is a very clear policy at the outset, and those facts show that it was a correct policy.

Now, what about Coinco's attitude at this point in [12] time?

Georgia Pacific factor number 5 talks about the commercial relationship between the licensor and licensee, and that the relationship is patentee and infringer. It is also that they are competitors in the words of Georgia Pacific in the same territory, in the same line of business, so in considering factor 5 and looking at Coinco's position with respect to that factor, Coinco knows that it needs a license to stay in this market that it has just entered, at least using the patented technology.

So the respective attitudes of the parties can be summarized as Mars being very reluctant to do it, Coinco feeling that if it wants to use the patented technology it must do it. That situation dictates a high price for a license, as does the nature of the market that I have already referred to which is essentially a one supplier market for electronic technology, that one supplier being Mars, and a market into which Coinco has entered by infringing.

Now, is this a profitable market?

The facts in evidence indicate definitely yes, at least going forward from 1984.

Exhibit PDX 02 shows Coinco's profit margin, both before royalty payment to Mars and after the royalty payments to Mars which the expert who prepared PDX 02 is suggesting.

In the incremental profit which I find is the [13] appropriate calculation of profit that Mr. Jackson calculated for Coinco starting in 1985, through 1984, ranges from a low of 43.6 percent to a high of 66.8 percent. And that is a generally upward trend with respect to profit.

I will come back to this exhibit in analyzing the royalty in terms of whether it still allows Coinco to make a decent profit.

But certainly at least looking forward, it turned out to be an extremely profitable market for Coinco, and Mars incremental profit as well was in the same general range, albeit MEI itself lost money for

reasons unrelated to this litigation, as far as the record shows, the incremental profit for both companies was roughly comparable with respect to the relevant sales of devices which included the infringed technology.

So we have a very profitable market. The profits, incremental profits, range from 45 percent to 58 percent over a period of time commencing in 1984 and that is a substantial incremental profit.

Georgia Pacific factor number 1 talks about the royalties actually received by the patentee for the licensing of the patent in suit which prove or tend to prove an established royalty. Much evidence was received as to that factor and discussed by witnesses and experts at some length.

There is no evidence as to a royalty associated [14] with these patents that went to a clear competitor such as Coinco, and which could be used as an accurate measure for calculating a reasonable royalty in this case.

There was a license to a company called Coin Controls. That license was, number one, in settlement of a lawsuit; number 2, the license did not permit competition in the United States; number 3, it was limited to certain technology which has been referred to as sentinal technology and Mars argues that if it were to be considered it would be a very expensive license for coin controls because they paid $2 million to settle the lawsuit, and didn't make or sell any items under that license for sale in the United States.

I don't need to resolve that argument, but the fact that it was in settlement of litigation and the fact that it was not in the United States and therefore not to a U.S. competitor tells me that it is of little relevance. And it is of little relevance because that license did not, and was not designed to, did not envision a loss of sales by Mars as a license to Coinco in these hypothetical negotiations would undoubtedly do.

There was a license to a company called Anritsu that related to pay telephone technology. The evidence does not suggest that Mars was involved in that line of commerce at all. And the record is unclear as to whether that licensee actually used or expected to use the technology of [15] the '137 and '719 patents. I think it is clear that that licensee could have used that technology, but that is as far as the record goes.

Also, that license was two years after these hypothetical negotiations. That diminishes somewhat the importance of that in evaluating the applicability of factor number 1, Georgia Pacific factor number 1. The important things, to me, are that it was outside of the relevant line of commerce that we are dealing with here, and have been in this entire litigation, namely, full line bottling, full line vending machine sales and bottling vending machine sales.

There was another license which Coinco refers to and as to which there was much evidence, and that was an intracompany license involving MEI, UK, United Kingdom affiliate.

The evidence as to that license is that it was a result of negotiations with the United Kingdom taxing authorities, and there was a reference in the evidence to a conclusion that a four percent royalty rate was high, that I am satisfied was the conclusion of UK Inland Revenue, namely our IRS, which related to intracompany transactions which the record does not tell me anything about, and suffice it to say that without information that would dispel the inference that this was not an arm's length transaction, I regard it as of little relevance. It is certainly not a license between [16] competitors, as the license in the hypothetical negotiations between Mars and Coinco would be.

So applying Georgia Pacific factor number 1, unfortunately, an easy resolution to this issue is not possible because the evidence does not allow me to base any conclusion upon the licenses which are in the record for the reasons I have stated.

Georgia Pacific factor number 2 is the rates paid by the licensee for the use of other patents comparable to the patent in suit. I know of no evidence as to such licenses. Indeed, as I will mention later, it was Coinco's business approach to develop things itself rather than paying others for licenses.

There is no evidence which informs me as to Georgia Pacific factor number 3 as to what the nature of the license would have been. The hypothetical construct talks about a nonexclusive license, but that would be all I know. I do not know what restrictions

would have been imposed if the parties – the parties did not present evidence as to what their negotiating positions would have been about geographical or line of business restrictions had there been a license.

I am reminded of footnote number 3, District court opinion in Grain Processing which is quoted by the court of Appeals, where the district judge discusses the difficulty of [17] coming up with a, which the result of negotiations which neither party engaged in or wanted to engage in, and had no interest in. That is what the hypothetical reasonable royalty negotiations construct envisions and that is what we do.

I have discussed Georgia Pacific factors number 4 and 5.

Factor number 6 deals with what we call convoyed sales, and the record does not help me much with respect to whether a license would promote such sales by either party.

Georgia Pacific factor number 7, the duration of the patent and the term of the license, I presume that the negotiations would be for a license for the full term, remaining terms of the two patents. The duration of the '719 expired in 2003. The '137 expired in 1992. I accept Mr. Jackson's calculation. I don't think that Mr. Chase, Coinco's expert, disagreed, that with respect to the '719, you essentially have a discussion with respect to a full term of the '719, or close to it.

It turned out that in 1994, ten years later, Coinco made a modification to the old 9300 which Mars concedes terminated its – terminated Coinco's infringement of the '719 by the 9300. But I don't think the parties would have known about that in 1984 or 86. But that situation is relevant in another context which I will discuss soon. Mr. [18] Jackson opined and I agree that where the license is for close to the full term of the patent, the rate should be a little less, and should be a little more where there are only a few years left during which the patentee can capitalize on its patented investment.

I have referred to Georgia Pacific factor number 9 in my earlier comments.

Factor number 10 is the nature of the patented invention, and the character of the commercial embodiment of it as owned and produced by the licensor. In this connection I note that, and I will come back to this, that Mars did not practice claim 23 of the '719 patent which is the only claim as to which I found infringement, and I will come back to that.

Georgia Pacific factor number 11 is the extent to which the infringer has made use of the invention, and the evidence probative of the value of that use I have already found that this was an extremely profitable situation for Coinco and I referred to the incremental profit margins that they achieved during the period of infringement.

Factor number 12 talks about a customary portion of the profit or of the selling price. Unfortunately,

there does not appear to be any custom reflected in the evidence which would have made my job much easier. So factor number 12 doesn't bear on my analysis.

[19] Factor number 13, the portion of the realizable profit that should be credited to the invention as distinguished from nonpatented elements, the manufacturing process, business risks or significant features or improvements added by the infringer, is difficult to apply. I don't think the parties – I know that the parties did not focus on this element in their presentations other than to present evidence that Coinco had success with its customers because it treated them well, and the customers liked Coinco and its service. That would be something that is a nonpatented element.

I am not sure anybody has yet got a patent on keeping the customers happy, though maybe I am wrong on that.

There was much evidence as to that, both from Coinco's witnesses and indeed, a detailed business analysis in evidence that was prepared for Mars by a consultant which concluded that in many ways Coinco was outstripping Mars in the marketplace and that Mars had problems to address.

That was around 1990, as I recall, at a point in time when Coinco was deriving benefit from its infringement, and it seems to me that recognition of the fact that Mars is being hurt by Coinco competitively in the marketplace doesn't really contribute to

the analysis when Coinco's mere presence in the marketplace is attributable to its infringement of Mars' patents.

[20] Georgia Pacific factor number 14 is the opinion testimony of qualified experts, and both experts are well qualified and their presentations were clear and understandable, and not surprisingly, Mars expert took the position that there was no available acceptable noninfringing alternative and Coinco's expert took the position that there was such an alternative available at all times to Coinco. And without really analyzing the factors which go into, into the availability of such alternatives, each took positions, one, that none existed, and the other that many existed. I think that was probably what they were charged with doing by their respective clients and I reviewed their presentations in that light. And I will discuss at some length the alternatives that Coinco asserts.

I have gone through all of the Georgia Pacific factors by number. What remains is – much remains, I am afraid.

Let me turn to an overview of this negotiating situation. I have already said that the nature – I have already discussed at some length the nature of the market and the attitude of Mars towards licensing a direct competitor, Coinco's need to get a license to stay in the market.

There are some things about this negotiating posture that Mars would have to recognize that

would, in my view, result in some amelioration of its enthusiasm. In [21] other words, factors which are negative to the resolution of what is a reasonable royalty, factors which would depress the amount of a reasonable royalty.

One is reflected in exhibit DX 2917, and that is an excerpt from a document prepared by Mars in 1988, and it is a relatively long-term plan for 1989 to 1993. And I think it is quite relevant to Mars' negotiating strategy and to what Mars would be willing to accept by way of a reasonable royalty. And it reads, quote, "Patents are of debatable value to an electronics business. Three key coin patents will expire by 1992. These patents have been useful in bringing companies to negotiate with us, for example, Anritsu. But most large competitors (Sanyo, NRI) have found alternative design routes. The effect on our business of the loss of this patent protection is not expected to be significant, but it will lead to low cost (me too) products in the U.S. market."

As I have said, this is Mars' own document. It clearly recognizes the ability of others to find alternative design routes. And that recognition seems to me would say to Mars that, let's do the best we can in these negotiations, but we do have some problems because obviously, if Coinco is one of those people that can find an alternative design route, Coinco will be aware of that and Coinco will adjust its negotiating position accordingly. In other words, if [22] Coinco sees the way clear to designing around or otherwise

not infringing Mars patents, it is not going to pay very much for a license.

I referred earlier to the fact that Mars did not practice the claim 23, as I concluded on the record in my marking opinion of a couple of months ago – by the way, if I can interrupt, where is the order on that?

MR. MARINO: I am happy to bring it up to your Honor, if I may.

THE COURT: Oh, good.

MR. MALLIN: Your Honor, we have an agreed order, I believe, present in the courtroom for you.

THE COURT: It is on its way up.

MR. MALLIN: Thank you, your Honor.

THE COURT: Okay.

THE COURT: Agreed, Mr. Pegram?

MR. PEGRAM: Yes, your Honor.

THE COURT: Okay. Thank you.

Next, and this aspect of the evidence loomed very large in Coinco's presentation, I find that both Mars and Coinco would know that Coinco had the ability, the resources, and the desire to design around Mars' patents, or otherwise conduct their business without infringing.

And that fact known to the parties to the negotiations would likewise cause Mars to modify downward its [23] negotiating posture.

In this connection, that is an appropriate seque, I think, to the question of the availability of an acceptable noninfringing alternative.

There was much evidence at the damages trial from Mr. Hoormann, and others, that bears on this issue. As to acceptability, I have already addressed the attitude of the customers towards these devices. All they cared about was that they worked and they did not get involved in the technological aspects of it except to the extent that they demanded electronic rather than electromechanical technology at the relevant points in this damage calculation.

The market changed. Electronic technology become the leader. It changed through the efforts of Mars which was certainly the dominant supplier of devices with this technology starting in the 1970's. And Mars built the market for the electronic technology, and it is reflected in the evidence that someone, one witness said, you couldn't give away an electromechanical device once the electronic devices were available.

Now, when charged with infringement, Coinco did nothing for several years.

(Pause)

MR. MALLIN: Your Honor, did we lose you?

THE COURT: I am lost in thought.

[24] MR. MALLIN: I apologize. I was worried that I lost the line. You are kind of flashing. I apologize.

THE COURT: It is okay.

In 1994 Coinco modified its 9300 construction in a way that was acceptable to Mars and there was much evidence presented by Coinco that it could have done the same thing much earlier.

Now, generally, we are not crazy about hindsight in litigation or in life, I guess, and that is clearly someone testifying in 2006 as to what they could have done in 1986.

Mr. Hoormann is the witness I refer to who testified pretty clearly that he would have recommended making the change to the old 9300 earlier if he had known that it infringed. And the decision on infringement was yet to come, obviously it didn't come to, well, two decisions on infringement came in 2001, as I recall, as to the '137 and 2003 as to the '719.

So some hindsight is built in here because the hypothetical negotiating posture is you know you are infringing but the Judge has not said so yet.

Mr. Hoormann also testified as to the '137 patent which has been referred to as the two-frequency patent, that in 2001 presumably, and more than presumably, I find that it was in reaction to my

infringement decision in 2001, efforts were made to come up with something which they could say that [25] would have worked back in 1984 and which would not have infringed the '137.

(Pause)

I am looking for some documents, Mr. Mallin. I have to keep checking in with you because you are obviously paying attention.

MR. MALLIN: Thank you, your Honor. I just wanted to make sure we didn't lose the telephone line.

THE COURT: Or me.

Let me turn to the Grain Processing case which is important in this case because Mars takes the position that the record does not support the existence of an acceptable noninfringing alternative and the Grain Processing case, or at least the last Grain Processing opinion, dealt with that precise subject.

Grain Processing analyzed a claim of a noninfringing available alternative, acceptable noninfringing available alternative, in the context of such an alternative which was not on the market during the accounting period. And Grain Processing said that under such circumstances, a trial court may reasonably infer that it was not available as a noninfringing substitute at that time but then the burden shifts to the accused infringer to overcome that inference by showing that it was available. Mere speculation or

conclusory assertions will not suffice to overcome the [26] inference and the trial court must proceed with caution in assessing proof of the availability of substitutes not actually sold during the period of infringement.

The Court then went on to assess the evidence in that case and it found that the accused infringer had all of the necessary equipment, into how, and experience, to use the alternative that it was referred to. And could do so, could have done so at any time during the period of infringement. The only deterrent reflected in the evidence in that case was cost. That was the actual deterrent, according to the Court, as well as the fact that the infringer felt that it had a noninfringing product.

The Court said it found no error in the district Court's finding that the extra cost was not prohibitively expensive to the infringer, that the substantial profit margins were enough to absorb that additional cost, and that the particular patented attributes weren't significant to customer demand.

It therefore found the substitute to be available even though it had never been on the market and also affirm the District court's finding that it was acceptable to customers. Grain Processing was a lost profits case and in the lost profits analysis that we are not involved with here, the availability of an acceptable noninfringing alternative is relevant to the evaluation of the "but for" nature of the [27] analysis.

In microchemical against *Lextron, Lextron,* 317 F.3d 1387, the Court said at page 1393 that the Federal Circuit has not had occasion to address whether the holding of Grain Processing has applicability in the reasonable royalty context. Because of the nature of that case, they were able to resolve it without resolving that question.

I resolve it as follows: I think that the availability or not of a noninfringing acceptable alternative is highly relevant to hypothetical reasonable royalty negotiations, and this is not a very difficult conclusion to reach. It just seems to me self evident that if the accused infringer who is negotiating for a royalty and is of course seeking a lower royalty, will find it very relevant that he can present alternatives that don't infringe, and that will be acceptable to customers and likewise the patentee that is seeking a high royalty will be very interested in showing during the negotiations that such alternatives do not exist.

So let's go back to the facts that I was talking about before I digressed to discussing the controlling legal principles.

With respect to the single-frequency approach to avoiding infringement, Mr. Hoormann, the witness who talked about Coinco's ability to avoid infringement of the '137 by using the single frequency device, had some baggage in that [28] respect, and Mars pointed it out very effectively during examination by pointing him to his own patent, the '852 patent, where he expressed a preference in terms of performance for

using two frequencies to examine the coin rather than one frequency.

His patent was in evidence at exhibit PTX 40 and the reference that I have just referred to is in column 10, lines 43 to 51.

So to the extent Mr. Hoormann in 2001 would be recommending to his management that they go to one frequency, single frequency technology to get around the '137, one has to assume that he would be confronted with his own patent where he said he preferred two frequency, along the same lines Mr. Hoormann was confronted with his deposition. And then at trial he was asked, not the damages trial, the infringement trial, he was asked:

"I will ask you if you recall if that was your former testimony and I will give you an opportunity to tell me whether or not you still believe it to be true today. I am going to ask you the questions and you do the answers.

"Okay.

"QUESTION: Did you ever consider in the 9300 or the 880 making it with a single frequency?

"ANSWER: Yeah, we considered that.

"QUESTION: And is there any data on that?

[29] "ANSWER: No, there isn't.

"QUESTION: And was that rejected?

"ANSWER: Yes.

"QUESTION: Was that rejected because the performance wasn't as good?

"ANSWER: It was rejected because one test wasn't adequate to do it, to test the performance."

Then with respect to somewhat different technology:

"QUESTION: Did you ever consider having two testing coils operating at the same frequency, one series aiding, series-aiding, and one series-opposing?

"ANSWER: I just never thought of it. Not that I am aware of.

"QUESTION: So you concluded that at that time you had to use the two different frequencies. Is that correct?

"ANSWER: We concluded that that construction was the most optimum."

Then Mr. Hoormann confirmed that that was still his, that was still an accurate statement of his knowledge at the date of his testimony.

So while I have found, and I have no doubt that Coinco had the ability and the resources to develop noninfringing technology, that finding is mitigated somewhat by Mr. Hoormann's admission that that particular noninfringing technology didn't perform as well. He said it [30] was not the most optimal. Perhaps I am quibbling, but being the most optimal is a

pretty high if not redundant standard. So in fairness to Mr. Hoormann, he did not say it just wouldn't work. What he said was it wouldn't work as well as some other technology.

Then there is the evidence in the record of testing, of the technology that Mr. Hoormann said was not the most optimal. And that evidence was that, that technology worked okay. It met Coinco's performance standards in pretty much all respects. So there is something of a mixed situation with respect to this particular alternative available technology as to its acceptability,.

The evidence is clear that the customers care about how well the device worked. They didn't care how it worked as long as it was electronic, and it had to be electronic because the electronic technology had developed in the market to the point where it was relative to electromechanical technology, free of problems.

I mentioned that we are not crazy about hindsight in litigation or in law, but here is where the hypothetical reasonable royalty negotiations requires us to accept hindsight because it imposes upon the trier of the fact a hypothesis that both parties knew that the accused infringer was infringing. And in the facts of this case Coinco did not know it was infringing until 2001 as to the '137, and 2003 as [31] to the '719. So they get the benefit of being able to testify that if they had known they were infringing they would have done something immediately to, or could

have done something immediately, to avoid infringement.

If we didn't have this hypothetical situation where that testimony is permissible, that 15, 20 year period of hindsight might be regarded as gross speculation and therefore not admissible.

So when infringement was found Coinco, the evidence shows, set about to figure out how it could have avoided infringement if it had known about it immediately when it occurred.

There is another aspect to this noninfringing alternative that is difficult to wrestle with.

At the point in time of the hypothetical negotiations, Coinco was, relative to Mars, at least, a novice with respect to the electronic technology that is involved here. Up until 1984, it had not sold devices containing electronic technology. Mr. Hoormann had the '852 patent in roughly that timeframe that I have already referred to. But that was infringing, the technology in that patent was, everyone agreed, infringing on one of Mars patents. So the question of what was truly available to Coinco in the 1984 to 1986 timeframes is a difficult one. It is clear to me that Coinco has the burden on the issue of establishing [32] that it had available to it an acceptable noninfringing alternative. Mars points to one paragraph of the damages pretrial order which essentially says that. And that makes total sense to me, that Coinco should have the burden on that issue.

I also note that even in 2001 when Coinco turned to figuring out what noninfringing alternatives would have been available after my finding of infringement as to the '137, those alternatives were not built. Mr. Hoormann so testified.

Mars argues that there is no case where the Court has found a proposed alternative to be available and acceptable where it had never been sold or used by any customer in the market. And I think that proposition is true. I think it has relevance to the lost profits analysis where you must establish an actual "but for" relationship, or I conclude that it is not quite as relevant in the reasonable – in the negotiation, the hypothetical negotiation for a reasonable royalty because, for one thing, no "but for" relationship has to be addressed. And we are talking about reconstructing what the parties would have done and would have said and a result they would have reached knowing what they know and with all cards turned face up on the table.

That pretty much destroys, it seems to me, the relevance of the fact that no court has found a proposed [33] alternative to be available and acceptable when it has never been sold or used because we are talking hypothetically. There aren't that many reasonable royalty cases where there is a detailed analysis of these negotiations and therefore I would have to base a determination on the evidence I have which in part consists of an infringer with the resources, both monetary and in terms of personnel, to deal with this technology in a none [sic] infringing way, albeit that they

were, relatively speaking, new to the market compared to Mars. Nonetheless, they have been dealing with coin recognition technology for many years.

The resolution of this somewhat convoluted factual situation is that I find that Coinco would know back at the time of these negotiations that it could probably figure out a way to avoid infringement, that using single-frequency versus two-frequency technology to avoid infringement of the '137 patent probably wouldn't work very well, or certainly wouldn't work as well as the two-frequency but it was certainly worth talking about in the negotiations. In other words, it was a significant factor in their negotiating position, but it wasn't going to carry the day.

As to the other modifications of technology which it relies upon here to support an available noninfringing alternative, Coinco relies heavily on the modification to the 9300 which took place in 1994, and says that it could have [34] done that sooner.

Mars says no, you couldn't have, because that change would have violated our '565 patent.

Unfortunately, I can't so conclude because in order to decide whether the '565 patent would be a barrier to the change from the old 9300 to the new 9300, at a point in time when the '565 patent was, or had not yet expired, because there is just not enough evidence on that. There is somewhat conclusory statement attributed to Mr. Shuren by Mars' expert. But as we all know, a determination that that would

have been a bar is just not possible given the evidence in this record.

Dr. Morley touched, barely touched on this. He did opine that the single-frequency and single-coil modifications that he espoused would not infringe the '137 and the '719. He didn't say anything about the '565. I frankly would have expected him to with respect to the new 9300 technology being available back in earlier times, but that is still enough for me to reach a conclusion on that issue.

Let me digress a second and refer to the issue of field testing. Mars took the position that because none of these asserted available acceptable noninfringing alternatives had been field tested, that they cannot be considered or should not be considered as acceptable and available. And Mars presented evidence that Coinco touted [35] its conducting of field testing as to all of its new products to its customers to convince them that they were going to get a reliable product which had withstood the rigors of testing.

I am satisfied as to some of the changes that Coinco asserts. The field testing was not the sine qua non of being available or acceptable. I think as to the single-frequency modification that I have talked to, and as to which I have talked about Mr. Hoormann's views, that is not the case. I think given Mr. Hoormann's own views as to the less-than-most-optimal status of the single-frequency technology compared to dual-frequency technology, I cannot find that without field testing that would have been acceptable.

Bear with me one second.

(Pause)

Let me go back to two of the Grain Processing factors. I am sorry for this digression. Grain Processing factor number 9, and factor number 13 both talk about the utility and advantages of the patented property over the old –

MR. PEGRAM: Are you speaking Grain Processing or Georgia Pacific, your Honor?

THE COURT: Thank you. I am sorry. Mr. Pegram is correct. I am talking Georgia Pacific.

MR. PEGRAM: I have been using the initials GR and PR and GP to distinguish so I am having the same trouble.

[36] THE COURT: Okay. Thank You. Factor number 13 talks about the portion of the realizable profit that should be credited to the invention as distinguished from nonpatented elements.

Coinco argues that the patented features are limited when compared to the invention as a whole, and they refer to evidence that the customers were not making decisions based on the patented features but on other unpatented features. And while this technically may be partly true, the evidence is that the customers cared about performance, not the technology. Coinco's argument goes too far, it seems to me, because the customers were making their buying decisions based on performance, which included

accepting good coins and rejecting slugs and making change accurately and other factors, and Mr. Dobbins referred to first pass acceptance as critical. And all of those performance criteria are achieved by the technology.

Mr. Graham testified that coin validation technology and performance in the MEI products was important to the success that MEI was having in the market in the 1979 to 1985 timeframe. So I do find that it was the patented features which enabled the performance which resulted in the success and of course I refer back to my finding in the obvious analysis I did with respect to the, I believe it was the '137, where I found the secondary factor of the nexus [37] between commercial success and the patent invention to be present.

In another respect, I think Coinco's argument goes too far. If you have a market where the customers are not technologically sophisticated, and where all they care about is performance, and I think that is what we have here, it would be impossible to show that the customers cared or even knew about the particular technology. And if it were a requirement to show under the Georgia Pacific factors that the customers knew about the, and appreciated the importance of the particular technology, then you would always have to deny recovery of a reasonable royalty for infringement in cases where that would simply be unjust. So for those reasons I think Coinco's argument goes too far, and is contrary to the policy of the patent laws of Section 284 in particular.

Counsel need a break?

MR. PEGRAM: Your Honor, if we could take a five-minute break?

MR. MALLIN: Okay here.

THE COURT: Mr. Pegram would like a five-minute break. I am sure the reporter would appreciate that, too. Let's take a five-minute break. If you hang on, Mr. Mallin, we will continue.

(Recess)

[38] MR. PEGRAM: Thank you, your Honor.

THE COURT: Okay. I have a question for, I guess, Mr. Pegram and Mr. Mallin. I am sure, I appreciate anything Mr. Marino has to say, but I would be surprised if he had an answer. I think everyone agrees that Mr. Jackson made a mistake arithmetically, and Mr. Chase corrected it in his slide number 90, but I can't figure out whether my recent ruling about marking on the '719 or the lack of necessity for marking on the '719 which results in an expansion of the damages period suggested by Coinco, is reflected in his numbers.

Can counsel help me with that?

MR. PEGRAM: Standing here at this moment, your Honor, I can't recall. I do recall that there is in evidence the alternatives of with and without that time period. But whether that particular

document as corrected reflects that, I just could not tell. It would probably take a little bit of research to find out.

THE COURT: Well, I am pretty sure that this document which was generated before that decision, that non-necessity of marking decision, doesn't reflect that because there is no way it could or should. But I just can't tell from the testimony of Mr. Jackson whether this extra million dollars or so of sales or even of royalty is sought by him on behalf of Mars. I have, independently of that – let me just [39] say I don't think it would change my decision, but nonetheless I am a little antsy about not having all the facts totally – certainly the facts as to money – totally pinned down.

I have heard that money is important to people.

MR. PEGRAM: I believe you are correct, your Honor.

MR. MALLIN: Your Honor, from my point of view, if I understand your question correctly, and although I didn't hear all of Mr. Pegram's response, I do not believe that Mr. Chase's slide 90 included any computation for periods when Coinco believed that product or products should have been marked or not. I would have to check those just to confirm that by looking at slide 90 myself.

THE COURT: Well, I tend to agree with you, Mr. Mallin, if for no other reason than slide 90 was prepared before I made the marking decision.

And while we are dealing with predicting the past in this case, nobody is expecting the experts to predict the future.

MR. PEGRAM: I would agree with Mr. Mallin on what he had said.

I believe in the record Mr. Jackson did offer the alternative, but I can't pinpoint where he said and if it goes to the earlier period it would be this additional amount of sales. Since he was speaking in terms of reasonable royalty, I guess all we really need to do is ascertain the [40] period of the earlier sales, or rather, the amount of the earlier sales that would not have been included in Mr. Chase's correction. And I think that can be readily done. But I can't do it standing here today. It would probably take some research.

(Pause)

THE COURT: Sorry. I am just looking through my analysis of the trial testimony, and not resolving the question.

(Pause)

THE COURT: All right. Let me continue.

To sum up the scenario that the parties would be facing in the hypothetical negotiations, we have a market that belonged to Mars 100 percent for electronic devices. Mars saw that those electronic devices had displaced the mechanical devices, and knew that it had a winner in that it had a virtual monopoly in that area. Both parties know that Coinco joined the

market and was competing or would be competing by virtue of infringement on Mars' patents. Both parties had a reasonable expectation that the market would be highly profitable, that there was demand from the customers for the products based upon their performance. The performance of the products, that is.

Mars' attitude towards licensing was that they would not license a competitor because it would be [41] economically suicidal because of sale that the competitor would make pursuant to license would be a sale lost to Mars under this market scenario that I have talked about. Coinco, on the other hand, would say to itself that if it wants to get into this market, it needs to get a license because these patents are a barrier, and it would want to stay in the market because it, too, would feel that there is a profitable venture out there that would it would want to take advantage of.

Mars would know that its own views that I quoted earlier were that patents weren't immune to the efforts of competitors to design around them, and Mars would know that its competitors had the capability to do so. Mars would also know that it was not practicing the claim of the '719 patent that I found to be infringed. And on the availability of noninfringing alternatives, at that point in time neither party would have any knowledge, but both parties would have confidence in the ability of Coinco to come up with something. Mars had already said in its 1988 planning document, which I have quoted, that design around or other noninfringing technology was more

likely than not. And Coinco knew its own abilities and resources. Looking back to that hypothetical negotiation from the vantage point of some hindsight, Coinco would know that at least the two-frequency [42] design around was not as good as it would like.

Win [sic] the framework of those major aspects of the negotiating situation, I think at one point or another I had covered all the arguments of the parties.

Turning to amount of the royalty, there is no evidence in the record that supports a particular percentage other than the percentage calculated by Mr. Jackson. There is no history or comparator that enables me to accept or reject or even modify a particular percentage. To the extent that Coinco argues that the royalty amount suggested by Mr. Jackson is something like 6,000 percent of $200,000 that Mars paid for the '719 patent, that arithmetically sounds about right.

But it doesn't sound right from the point of view of calculating a reasonable royalty.

I have already adverted to the fact that Mars did not practice the claim of the '719 patent that I found infringement on. But Mars is entitled to reap from its investment in the patent whatever it reasonably can. There is nothing in the record which would enable me to conclude that Coinco would know how much Mars paid for the patent at these negotiations.

I would admit that there would be a lot of talk at these negotiations about Mars being greedy, if Coinco

knew what Mars had paid. There is certainly no evidence in the [43] record that Coinco would have known this at the time of the negotiations.

The question really is whether I can infer in this hypothetical situation that this would be one of the cards that would be face up.

I do so infer because everything I have seen about this construct of a reasonable royalty negotiation says that all relevant facts are known by all parties, and it does seem to me to be relevant to the negotiations in the way I have suggested, namely, Coinco would argue with some force that while Mars is entitled to recoup its investment, its investment was small, and what it is seeking to recoup is disproportionate.

So the overall position of the parties, that negotiation has Mars being definitely advantaged by the nature of the market, its participation in the market, Coinco's joining the market only to infringement, and Mars unwillingness to license Coinco probably at any price for the reasons I have discussed. Those factors speak towards a high royalty, as does Coinco's need to get a license to stay in the market. The profitability also speaks to a higher royalty.

Factors which speak to a lesser royalty are Mars' own attitude towards the value of its patents, the fact that it did not practice the claim sued upon. And found to be [44] infringed. And the fact that as to the '719 patent its acquisition cost was somewhat modest and the fact that to some extent all parties would

realize that Coinco had the resources and the capability to avoid infringement. Or in the context of these negotiations where infringement is assumed to discontinue infringement.

I have, in view of that situation –

(Pause)

THE COURT: I am sorry. I have got some detailed notes here which I am checking.

(Pause)

THE COURT: In view of that assessment of the situation, I feel that a blended royalty of 7 percent is appropriate. I am reluctant to do the actual calculations because I do not know whether the right number is the $187,905,941 figure shown on slide 90, or whether it is higher. But let me explain why I came out with 7 percent.

The 11.5 percent that Mr. Jackson suggests after his math was corrected, or arithmetic was corrected, really, as a blended rate totally ignores the availability, to some extent, of acceptable noninfringing alternatives. And I have found that there is evidence in the record which supports my finding that to some extent that there were going to be activities by Coinco designed to hypothetically ameliorate the infringement.

[45] Mr. Jackson also did not address or at least did not provide any downward adjustment for the

factors which I have found compel a downward adjustment, namely Mars' own conception of the value of patents generally in its business, and the '719 situation both with respect to the asserted claim and its relatively modest cost of acquisition.

That causes me to go to 7 percent rather than the 11.5 percent that he recommended. The percentage will not have to be adjusted, but counsel will presumably agree on the impact of my February 13, 2007, ruling about the lack of necessity for marking, thereby extending the period for which Mars can collect damages on the '719.

Now, I have compared that and the number which it generates, namely, seven percent times the total infringing sales, with Coinco's profitability and I refer again to PDX 02, which is Mr. Jackson's compilation of Coinco's profit margins, and he has done a calculation which is net of a royalty payment to Mars at a higher amount than I have calculated, and concludes that the profit margin is somewhere – ranges between 39 percent and 64 percent even after the royalty that he recommended.

Obviously, that profit margin will be higher after the lower royalty that I found, and I, too, find that that profit margin allows Coinco to earn, in hindsight, a reasonable profit even after payment of that royalty.

[46] Anybody have a calculator handy?

MR. MALLIN: I do not, your Honor.

MR. KURZWEIL: I do.

THE COURT: I am going to ask Mr. Kurzweil if he would multiply $187,905,941 –

MR. KURZWEIL: Not enough decimal places.

THE COURT: We don't need that. Counsel will confer with respect to the uncertainty about the sales that need not have been subject to marking, and then counsel can do the calculation and prepare a judgment.

MR. PEGRAM: Your Honor?

THE COURT: Interest to abide the discussion, the response of Coinco.

Final comment, the most important factor in my calculations is the fact that Mars would be, by this hypothetical licensing exercise, be essentially giving up its own monopoly, and for that I would expect it would charge a high price.

Anything further? I don't have anything further.

MR. MALLIN: Nothing from me, your Honor. Thank you.

THE COURT: Okay. Mr. Pegram.

MR. PEGRAM: Yes, your Honor. This might be the last time that we meet. I just wanted to thank your Honor on behalf of all counsel and all the parties. I

am sure Mr. [47] Mallin will join me in this, for your very careful consideration.

We have won some, we have lost some, as we have gone through the years on both sides, but we never doubted the care you have put into this and the dedication. We really appreciate it. Thank you.

THE COURT: Thank you, Mr. Pegram.

Okay. To the extent Mr. Mallin may agree, thank you, too.

MR. MALLIN: I am sorry, your Honor. I did say thank you for your efforts, Judge.

THE COURT: Okay. That is why I am here. Okay. Thank you all.

(Adjourned).

UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

2007-1409, -1436

MARS, INCORPORATED,

Plaintiff/Counterclaim Defendant-Appellant,

and

MARS ELECTRONICS INTERNATIONAL, INC.,

Plaintiff/Counterclaim Defendant,

and

M&M/MARS INCORPORATED,

Counterclaim Defendant,

v.

COIN ACCEPTORS, INC.,

Defendant/ Counterclaimant-Cross Appellant.

Appeals from the United States District Court for the District of New Jersey in case no. 90-CV-00049, Senior Judge John C. Lifland.

NOTE: This order is nonprecedential.

UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

ORDER

(Filed Jun. 27, 2008)

Before Linn, Circuit Judge, Clevenger, Senior Circuit Judge, and Prost, Circuit Judge.

A petition for rehearing having been filed by the Cross-Appellant,

UPON CONSIDERATION THEREOF, it is

ORDERED that the petition for rehearing be, and the same hereby is, DENIED.

The mandate of the court will issue on July 7, 2008.

FOR THE COURT,

/s/ Jan Horbaly/[JB]
Jan Horbaly
Clerk

Dated: 06/27/2008

cc: John B. Pegram
Kenneth J. Mallin

MARS V COINT ACCEPTORS, 2007-1409, -1436 (dct-90-cv-0049)

UNITED STATES DISTRICT COURT
DISTRICT OF NEW JERSEY

MARS, INC., and MARS ELECTRONICS INTERNATIONAL, INC., Plaintiffs and Counterclaim Defendants	CIVIL ACTION NO.: 90-0049 (JCL)
v.	**FINAL JUDGMENT**
COIN ACCEPTORS, INC. Defendant, and Counterclaimant.	

In accordance with the attached opinion, it is on this 22nd day of May, 2007

ORDERED that, Plaintiff Mars, Inc. is awarded final judgment in the amount of $26,805,150.00 for Defendant Coin Acceptors, Inc.'s infringement of United States Patent Nos. 3,870,137 and 4,538,719. This amount consists of $14,376,062.00 in reasonable royalty infringement damages as granted in this Court's Order of May 9, 2007 (Docket Index #379), and of $12,429,088.00 prejudgment interest, as explained in the attached opinion.

/s/ John C. Lifland, U.S.D.J.

LICENSE AGREEMENT

(ADMITTED AS AN EXHIBIT IN THE DISTRICT COURT)

THIS AGREEMENT, effective at 1 January 1996, by and and [sic] between Mars, Incorporated, a corporation organized and existing under the laws of the State of Delaware, U.S.A. and having its principal office in McLean, Virginia (hereinafter referred to as "Incorporated"), and Mars Electronics International, a Division of Mars U.K. Limited, a company organized and existing under the laws of the United Kingdom and having its principal office in Winnersh, U.K. (hereinafter referred to as "MEI-UK);

WHEREAS, MEI-UK is in the business of manufacturing and selling currency note acceptors and coin exchange mechanisms and other electronics products ("Covered Products");

WHEREAS, to the extent Incorporated's prior research and development activities, with respect to the Covered Products, resulted in the generation of information, whether process, design, invention or otherwise ("Information"), that at 31 December 1995 had substantial value independent of the services of any individual, and that Information was not protected by letters patent, registered design, copyright or their equivalent, Incorporated represents that it is the beneficial owner of the Information;

WHEREAS, Incorporated currently owns the Information and a substantial number of patents and

patent applications, which existed at 31 December 1995, relating to Covered Products manufactured and sold by MEI-UK ("Covered Intellectual Property");

WHEREAS, MEI-UK will continue to have a non-exclusive right to exploit, in the conduct of its business, the Covered Intellectual Property in any country of the world in exchange for a royalty payable to Incorporated; and

WHEREAS, the parties acknowledge that the historical royalty paid by MEI-UK to Incorporated, with respect to the Covered Intellectual Property now needs to be amended because the value of the Covered Intellectual Property decreased and is anticipated to decrease further. On this basis, the amount of royalty charged between 1990 and 1995 has been deemed excessive.

NOW THEREFORE, in consideration of one dollar and other good and valuable consideration, the receipt of which each party hereby acknowledges, agrees, covenants and undertakes as follows:

SECTION 1

Rights Granted to MEI-UK

1.1 Incorporated hereby grants to MEI-UK the non-exclusive right, authority and license to use, make, sell and otherwise exploit any and all of the Covered Intellectual Property

SECTION 2

Obligations of MEI-UK

2.1 Subject to adjustment under Section 2.3 below, MEI-UK hereby undertakes to pay Incorporated, as a fee for the right, authority and license granted by Incorporated to MEI-UK, an amount of money, in GBP equal in value to MEI-UK's gross sales value, arising from the sale of Covered Products, multiplied by the following rates ("Tentative Payment"):

Year	Rate
1996	5%
1997	5%
1998	4%
1999	4%
2000	4%
2001	3%
2002	3%
2003	2%
2004	2%

2.2 The parties agree that the Covered Intellectual Property is expected to have nominal value in the years following 2004 and therefore no royalty will be paid.

2.3 For the years 1990-1995, the parties agree that the historical royalty payment with respect to the Covered Intellectual Property was excessive to the extent it exceeded a net royalty of 4% after taking into account product development recovery (see Recitals above). However, the parties confirm that no adjustment will be necessary for royalty payments made with respect to

Covered Intellectual Property prior to 1990. The parties have calculated the post-1989 excessive portion of historical royalty payments to be equal to GBP 7.062 million in total for the years 1990-1995 as set out below ("Royalty Prepayment"). The Royalty Prepayment for each year, together with the "Interest Sum" for each year, will be offset against the Tentative Payment on a FIFO basis (that is 1990 will be offset before 1991, etc.). The order of offset against the Tentative Payment will be as follows: (1) the Interest Sum brought forward with respect of a prior Royalty Prepayment adjustment year, (2) the Royalty Prepayment, and (3) the Interest Sum related to the Royalty Prepayment adjustment year in (2) above.

The Interest Sum will be calculated by multiplying the "Accrued Interest" for each year by 100 divided by the U.K. corporation tax rate prevailing in the year of offset. Accrued Interest will be calculated from the dates for each year, as set out below, at a rate equal to the Inland Revenue interest rate on overdue corporation tax up to 31 December of the year immediately preceding the year against which the Tentative Payment is offset.

* * *

IN WITNESS WHEREOF the parties have caused this Agreement to be executed by or in the presence of their duly authorized officers.

MARS, INCORPORATED:	MARS ELECTRONICS INTERNATIONAL, a division of MARS U.K. LIMITED
By: /s/ [Illegible]	By: /s/ [Illegible]